

3 1761 11638203 7

HANDBOUND  
AT THE




UNIVERSITY OF  
TORONTO PRESS



CAI R4 62  
-62 S19

Government  
Publication:



Digitized by the Internet Archive  
in 2023 with funding from  
University of Toronto



7623

A



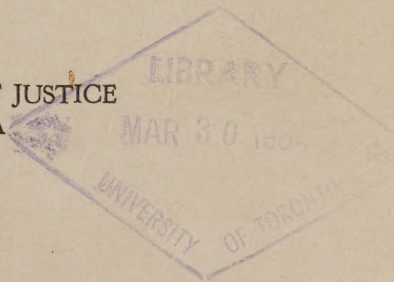
Canada

RESTRICTIVE TRADE PRACTICES COMMISSION

# REPORT

Concerning the Manufacture, Distribution and Sale  
of Paperboard Shipping Containers and  
Related Products

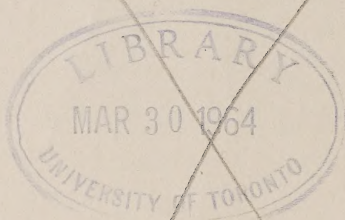
DEPARTMENT OF JUSTICE  
OTTAWA



ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1962

RTPC No. 19  
(Series begins 1959)

Price \$3.00  
Cat. No. J53-62/19



889416.



RESTRICTIVE TRADE PRACTICES COMMISSION

RESTRICTIVE TRADE PRACTICES COMMISSION

C. Rhodes Smith, Q.C., M.A., LL.B.  
Chairman

REPORT

CONCERNING THE MANUFACTURE, DISTRIBUTION AND SALE  
OF PAPERBOARD SHIPPING CONTAINERS AND  
RELATED PRODUCTS

Pierre Carignan, Q.C., M.A., LL.B.  
Member

COMBINES INVESTIGATION ACT

Ottawa  
1962





Report of the Restrictive Trade Practices Commission  
August 1, 1952

Honourable E. Davis Fulton, P.C., Q.C., M.A., LL.B.,  
Minister of Justice,  
Ottawa.

Dear Sir:

RESTRICTIVE TRADE PRACTICES COMMISSION

I have the honour to acknowledge the receipt of the report of the Restrictive Trade Practices Commission, dated August 1, 1952, in relation to the manufacture, distribution and sale of pharmaceutical, chemical and related products.

The matter was brought before the Commission by the submission of a statement of the Canadian Association of Manufacturers and Exporters of Pharmaceutical Products, dated July 1, 1952, and the Commission's report, dated August 1, 1952, in relation to the manufacture, distribution and sale of pharmaceutical, chemical and related products.

C. Rhodes Smith, Q.C., M.A., LL.B., B.C.L.  
Chairman

The inquiry had both a preliminary and a main stage.

Argument in regard to the Commission's report was heard by the Commission in relation to the preliminary aspect of the inquiry was heard by the Commission on August 1, 1952, and the main aspect of the inquiry was heard by the Commission on August 1, 1952.

Argument in relation to the Commission's report was heard by the Commission on August 1, 1952, and the main aspect of the inquiry was heard by the Commission on August 1, 1952.

Evidence and argument in relation to the Commission's report was heard by the Commission on August 1, 1952, and the main aspect of the inquiry was heard by the Commission on August 1, 1952.

Pierre Carignan, Q.C., M.A., LL.L.  
Member

A.S. Whiteley, B.A., M.A.  
Member

(Sgd.) C. Rhodes Smith





Room 451, Justice Building,  
August 2, 1962.

Honourable E. Davie Fulton P.C., Q.C., M.P.,  
Minister of Justice,  
Ottawa.

Dear Sir:

I have the honour to submit to you herewith the report of the Restrictive Trade Practices Commission in an inquiry relating to the manufacture, distribution and sale of paperboard shipping containers and related products.

The matter was brought before the Commission by the submission of a statement of the evidence obtained in the inquiry by the Director of Investigation and Research under the Combines Investigation Act and has been dealt with in accordance with the provisions of sections 18 and 19 of the Act.

The inquiry had both a combination and a merger aspect.

Argument in regard to the Statement of Evidence in relation to the combination aspect of the inquiry was heard by the Commission at Ottawa between September 19 and November 9, 1960.

Argument in relation to all but two of the acquisitions included in the merger aspect of the inquiry was heard at Ottawa between November 28 and December 6, 1960.

Evidence and argument in relation to the two remaining acquisitions were heard at Vancouver, B.C. between December 19 and 21, 1960.

In these proceedings, Messrs. F.C. Gascoigne, F.N. MacLeod and D.A. Rankin appeared on behalf of the Director of Investigation and Research, and Messrs. Hazen Hansard, Q.C., J.J. Robinette, Q.C., A.J. MacIntosh, Q.C., Joseph Sedgwick, Q.C., R. de Wolfe MacKay, Q.C., J.L. Farris, Q.C., D.C. McGavin, Q.C., J. Singer, Q.C., C.W. Brazier, Q.C., Andre Forget, Q.C., J.D. Arnup, Q.C., H.P. Legg, J. Duchesneau, J.A. Robb, J.S. McKinnon and W.E. Bronstetter appeared on behalf of the several parties mentioned in the Statement of Evidence.

Yours faithfully,

(Sgd.) C. Rhodes Smith

C. Rhodes Smith  
Chairman



# CONTENTS

	Page
INTRODUCTION . . . . .	1
1. Reference to the Commission . . . . .	1
2. Allegations . . . . .	1
3. Conduct of the Inquiry . . . . .	19
(a) By the Director . . . . .	19
(b) By the Commission . . . . .	28
4. Positions Taken by the Parties with Respect to the Director's Allegations . . . . .	35
5. The Organization of this Report . . . . .	40
PART I - THE COMBINATION ASPECT OF THE INQUIRY . . . . .	41
CHAPTER I - THE CONTAINERBOARD AND SHIPPING CONTAINER INDUSTRIES: PRODUCTS AND MARKET STRUCTURES . . . . .	41
1. Nature of Products . . . . .	41
(a) Description of Containerboard . . . . .	41
(b) Description of Paperboard Shipping Containers . . . . .	42
2. Description of Industries . . . . .	43
(a) Containerboard Industry . . . . .	43
(b) Container Industry . . . . .	59
3. Integration and Industry Structure . . . . .	79
CHAPTER II - INDUSTRY ORGANIZATION, 1939-47 . . . . .	101
1. Organization up to March, 1942 . . . . .	101
2. Wartime Controls . . . . .	101





	Page
3. Manufacturers' Avenues of Communication during the Period of Wartime Price Control . . . . .	106
CHAPTER III - POST-WAR ORGANIZATION OF THE INDUSTRY . . . . .	113
1. Administrator's Manual "B" and Industry's Manual "B" . . . . .	113
2. Organizational Work Resulting in Container Statistics Limited and Its Agreements with the Parties . . . . .	121
CHAPTER IV - INSTRUMENTS AND PRACTICES UNDER CONTAINER STATISTICS LIMITED . . . . .	139
1. The Manual of Container Statistics Limited . . . . .	139
(a) Introduction . . . . .	139
(b) Essential Nature . . . . .	139
(c) Various Editions and Issues . . . . .	143
(d) Price Levels in the Different Pricing Regions . . . . .	146
(e) Small Quantity Upcharges . . . . .	148
(f) Machine Charges . . . . .	149
2. The Compilation of the Manual and the Basis of its "Cost" Components . . . . .	149
(a) Relation of Industry's Manual "B" to Administrator's Manual "B" . . . . .	149
(b) Arbitrary Factors Used in Administrator's Manuals "A" and "B" . . . . .	151
(c) Extent of Accuracy of the "Costs" in Container Statistics Manuals . . . . .	154
(d) The Composition and Functions of the Industry's Cost Committee . . . . .	163



	Page
(e) Mr. Hayes's Continuing Reliance on Cost Information from a Restricted Number of Firms . . . . .	166
(f) Conclusions . . . . .	168
3. The Method of Revision of the Manual . . .	170
4. The Customary Use of the Manual . . . .	184
5. The Interpretation of the Manual by Mr. Hayes . . . . .	191
6. Mr. Hayes's Activities in Connection with Mark-ups . . . . .	195
7. Mark-ups Within Pricing Zones . . . . .	204
8. Mr. Hayes's Activities in Connection with Freight Charges . . . . .	212
9. Interregional Price Relationships . . . .	220
10. Obtaining Information About a Competitor's "Costs" and Prices . . . . .	223
(a) Inquiry Through Mr. Hayes . . . . .	223
(b) Direct Comparison of "Costs" with Another Company . . . . .	231
11. The Use of Standard Lists for Pricing . . .	236
(a) Standard Lists for Single-faced Corrugated Rolls . . . . .	236
(b) Standard Lists for Cannery Cartons . .	240
(c) Standard Lists for Brewery Cartons . .	247
(d) Use of the Standard Lists for Pricing .	251
12. Adherence to Trade Customs of the Paperboard Industry . . . . .	258
13. Exchange of Statistics on Shipments of Shipping Containers . . . . .	266





CHAPTER V -	PRICE INCREASES - POST-WAR PERIOD . .	275
1.	From the End of Price Control to the Establishment of Container Statistics' "Costing" System . . . . .	275
2.	The Adoption of the Container Statistics Limited "Costing" System in Western Canada, July, 1948 . . . . .	285
(a)	The Pricing Situation from November, 1947 to July, 1948 . . .	285
(b)	Process of Adoption of Container Statistics Limited's Manual in Western Canada . . . . .	285
3.	Events Leading up to the Adoption of the Container Statistics "Costing" System in Eastern Canada, October, 1948 . . . . .	297
4.	Events Leading to the Price Increase of September, 1950 . . . . .	309
5.	The General Price Increase in Eastern Canada, September, 1950 . . . . .	311
6.	Price Increases in Western Canada, 1950 . . . . .	326
7.	Alberta, December, 1950 . . . . .	329
8.	British Columbia, December, 1950 . . . .	331
9.	Price Changes through Changes in Mark-ups, 1950-52 . . . . .	333
10.	Adoption of the First Surcharge . . . . .	334
	Ontario and East, December, 1950 . . . .	334
	Manitoba-Saskatchewan, March, 1951 . . .	347
	B.C. and Alberta, March 1951 . . . . .	348



	Page
11. Adoption of the Second Surcharge, June, 1951 . . . . .	350
12. Price Reductions in Western Canada, 1952 . . . . .	359
13. Manual Revision and Price Increase, 1953 . . . . .	360
14. Relationship of Board and Container Prices in Canada to Those in the United States . . . . .	376
CHAPTER VI - APPARENT EXCEPTIONS TO CONTAINER STATISTICS LIMITED'S SYSTEM . . . .	380
1. Special Prices and Discounts . . . . .	380
2. Use of Manuals Other Than the Manual of Container Statistics Limited . . .	387
(a) Hinde & Dauch Manual . . . . .	387
(b) The Bennington Manual . . . . .	390
(c) Manual of Pembroke Shook Mills . . .	390
CHAPTER VII - RESTRICTIONS IN THE BOARD MARKET . .	393
1. Eastern Canada . . . . .	393
(a) Contracts and Practices of Bathurst .	393
(b) Gair: No Contracts . . . . .	397
(c) St. Lawrence's Contracts and Informal Allocations . . . . .	397
(d) Hinde & Dauch's Selling Practices . .	404
(e) Equality of Bathurst's and St. Lawrence's Board Sales . . . . .	409
(f) Statistical Interchange . . . . .	418
(g) Summary . . . . .	421





	Page
2. Western Canada . . . . .	422
(a) Supplies to Hilton . . . . .	422
(b) Supplies to Martin Paper . . . . .	423
(c) Prices of Eastern Board in Prairie Market . . . . .	434
(d) Prices of Pacific Mills <sup>1</sup> Board in Calgary Market . . . . .	441
(e) Summary . . . . .	445
CHAPTER VIII - ATTITUDES TOWARD PRODUCT INNOVATION . . . . .	446
1. The Pricing of B-Flutes . . . . .	446
2. Changes in Specifications of Board . . .	453
(a) Introduction . . . . .	453
(b) Implications of Improved Technical Specifications for Canadian Production of Containerboard and Shipping Containers . . . . .	453
(c) The Record of Opposition . . . . .	460
(d) Changes in Specifications of Boards Manufactured . . . . .	480
(e) Summary . . . . .	486
3. Exchange of Samples of Containerboard.	486
CHAPTER IX - PROFITABILITY OF THE SHIPPING CONTAINER INDUSTRY . . . . .	490
CHAPTER X - SURVEY OF INDUSTRY PRACTICES IN 1959 . . . . .	496
1. Introduction . . . . .	496
2. Results of Survey, Central Canada and Maritimes . . . . .	497



	Page
(a) Firms' Relations with Container Statistics Limited or F. C. Hayes . . . . .	497
(b) Manuals . . . . .	500
(c) Change in Machine Charges, May 1959 . . . . .	502
(d) Special Price Lists . . . . .	502
(i) Single-Faced Rolls . . . . .	503
(ii) Canners' Lists . . . . .	503
(iii) Beer Lists . . . . .	504
(iv) Pricing of Other Products . .	507
(e) Statistical Interchange . . . . .	508
3. Results of the Survey, Western Canada . . . . .	510
CHAPTER XI - THE COMPLAINTS OF OKANAGAN PACKAGING LTD. . . . .	513
1. Introduction . . . . .	513
2. Customs Duties and Pricing . . . . .	515
3. The Institutional Framework - Fruit Industry . . . . .	517
4. Sequence of Events . . . . .	518
(a) Pricing of Cartons and Packing Materials . . . . .	518
(b) Supplies of Corrugated Sheets . .	524
CHAPTER XII - SUMMARY OF THE EVIDENCE IN PART I . . . . .	527
1. Industry Structure . . . . .	527
The Containerboard Industry . . . . .	527





	Page
The Shipping Container Industry . . .	528
2. The Pricing Arrangements . . . . .	531
Pricing from 1939 to 1947 . . . . .	531
Industry's Manual "B" . . . . .	532
The Manual of Container Statistics Limited . . . . .	533
Standard Price Lists . . . . .	535
Adherence to Trade Customs of the Paperboard Industry . . . . .	536
3. Price Increases in the Post-War Period . . . . .	537
From the End of Price Control Until the Establishment of the Container Statistics "Costing" System . . .	537
The Adoption of the Container Statistics "Costing" System in Western Canada - July 1948 .	538
The Adoption of the Container Statistics System in Eastern Canada - October 1948 . . . . .	539
Other Price Increases in the Period 1948-1954 . . . . .	540
4. Apparent Exceptions to the Container Statistics System . . . . .	543
Special Prices and Discounts . . . . .	543
Use of Manuals Other Than the Container Statistics Manual . . .	543
5. Restrictions in the Board Market . .	545
Eastern Canada . . . . .	545



	Page
Western Canada . . . . .	547
Prices of Eastern Board in the Prairie Market . . . . .	547
6. Attitudes Toward Product Innovation . . . . .	549
The Pricing of "B" Flutes . . . . .	549
Changes in Specifications of Board . . . . .	549
7. Survey of Industry Practices in 1959 . . . . .	552
CHAPTER XIII - APPRAISAL OF THE EVIDENCE IN PART I . . . . .	554
1. Conclusions as to Arrangements . . . . .	554
2. Relationship to Sections 19(1a) and 32(2) of the Combines Investigation Act . . . . .	563
3. Demand for Canadian Containers . . . . .	563
4. Supply of Shipping Containers . . . . .	564
5. Market Structure, Protection, and Price . . . . .	564
6. The Containerboard Market . . . . .	565
7. Board Manufacturers' Attitude Toward New Products . . . . .	568
8. The Method of "Costing" . . . . .	569
9. Apparent Exceptions to the Pricing System . . . . .	570
10. Profitability and the "Costing" Manual . . . . .	571
11. The Effect of the Acquisitions . . . . .	571
12. General Detriment . . . . .	572



	Page
13. Participation by the Companies . . . .	572
PART II - THE ACQUISITIONS	573
CHAPTER XIV - BATHURST'S ACQUISITION OF SHIPPING CONTAINERS . . . . .	573
1. Method of Acquisition and Position Taken by Director . . . . .	573
2. Consideration of Allegations . . . . .	578
CHAPTER XV - BATHURST'S ACQUISITION OF KRAFT CONTAINERS . . . . .	582
1. Method of Acquisition and Position Taken by Director . . . . .	582
2. Consideration of Allegations . . . . .	583
CHAPTER XVI - BATHURST'S ACQUISITION OF CANADIAN WIREBOUND . . . . .	585
1. Method of Acquisition and Position Taken by Director . . . . .	585
2. Consideration of Allegations . . . . .	587
CHAPTER XVII - BATHURST'S ACQUISITION OF NORWOOD . . . . .	590
1. Method of Acquisition and Position Taken by Director . . . . .	590
2. Consideration of Allegations . . . . .	592
CHAPTER XVIII - BATHURST'S ACQUISITION OF A MINORITY STOCK INTEREST IN MARITIME . . . . .	594
1. Method of Acquisition and Position Taken by Director . . . . .	594
2. Consideration of Allegations . . . . .	595
CHAPTER XIX - ACQUISITION OF MARTIN-HEWITT BY HINDE & DAUCH . . . . .	596





	1. Method of Acquisition and Position Taken by Director . . . . .	596
	2. Consideration of Allegations . . . . .	597
CHAPTER XX -	HINDE & DAUCH'S ACQUISITION OF CORRUGATED PAPER BOX . . . . .	598
	1. Method of Acquisition and Position Taken by Director . . . . .	598
	2. Consideration of Allegations . . . . .	602
CHAPTER XXI -	ST. LAWRENCE'S ACQUISITION OF HINDE & DAUCH . . . . .	603
	1. Method of Acquisition and Position Taken by Director . . . . .	603
	2. Consideration of Allegations . . . . .	604
CHAPTER XXII -	PACIFIC MILLS' ACQUISITION OF CANADIAN BOXES . . . . .	606
	1. Method of Acquisition and Position Taken by Director . . . . .	606
	2. Evidence as to Position of Pacific Mills and Results of Acquisition .	608
	3. Consideration of Allegations . . . . .	619
CHAPTER XXIII -	MARTIN PAPER'S ACQUISITION OF CANADIAN WESTERN BOX . . . . .	622
	1. Method of Acquisition and Position Taken by Director . . . . .	622
	2. Consideration of Allegations . . . . .	624
CHAPTER XXIV -	POWELL RIVER'S ACQUISITION OF MARTIN PAPER AND SUBSEQUENT SALE OF HALF INTEREST TO MACMILLAN & BLOEDEL . . . . .	626
	1. Method of Acquisition and Position Taken by Director . . . . .	626



	Page
2. Review of Evidence Submitted to Commission . . . . .	628
3. Consideration of Allegations . . . . .	637
CHAPTER XXV - CANADIAN INTERNATIONAL PAPER COMPANY'S ACQUISITION OF HYGRADE . . . . .	640
1. Method of Acquisition and Position Taken by Director . . . . .	640
2. Consideration of Allegation . . . . .	642
CHAPTER XXVI - SUMMARY AND APPRAISAL OF ACQUISITIONS, 1945 TO 1960 . . . . .	644
1. Summary . . . . .	644
2. Appraisal . . . . .	648
(a) The Legal Position . . . . .	648
(b) Economic Analysis . . . . .	652
PART III -	
CHAPTER XXVII - RECOMMENDATIONS . . . . .	656

#### APPENDICES

I	IDENTIFICATION OF DOCUMENTS . . . . .	663
II	DESCRIPTION OF COMPANIES . . . . .	665
III	COMPARISON OF THE CONTAINER STATISTICS' PRICING MANUALS, 1948, 1950 and 1953-54 ISSUES . . . . .	680
IV	SCHEDULE OF MARK -UP PERCENTAGES BY COSTING ZONES, 1948-1954 . . . . .	683



# TABLES

	Page
1. Containerboard: Value and Volume of Production, 1947-60 . . . . .	44
2. Containerboard: Shipments of Individual Companies as Percentages of Mills' Total Shipments to Canada as a Whole, 1947-60 . . .	49
3. Containerboard Shipments to Four Regions as Percentages of Total Shipments to All Canada, 1947-60 . . . . .	51
4. Containerboard: Mills' Shares of Ontario and Quebec Market, 1947-60 . . . . .	53
5. Containerboard: Mills' Shares of Prairie Market, 1947-60 . . . . .	55
6. Containerboard: Mills' Shares of Maritime Market, 1947-60 . . . . .	57
7. Containerboard: Mills' Shares of British Columbia Market, 1947-60 . . . . .	59
8. Corrugated and Solid Fibreboard Shipping Containers, 1947-60 . . . . .	62
9-A. Annual Shipments of Shipping Containers, Corrugated Sheets and Rolls, by Region of Origin, 1948-1954 . . . . .	67
9-B. Annual Shipments of Shipping Containers, Corrugated Sheets and Rolls, by Region of Origin, 1955-1960 . . . . .	69
10. Cost of Non-Wooden Cases and Cartons in Specified Industries . . . . .	76
11. Percentages of Total Canadian Production of Shipping Containers Produced by Converters Owned by Containerboard Mills, 1955-60 . . . . .	82
12. Shares of Total Canadian Shipments of Containerboard Made by Integrated Firms, 1947-60 . . . . .	84





13.	Integrated Firms' Shares of Total Board Shipments to British Columbia Market, 1947-60 . . . . .	86
14.	Integrated Firms' Shares of Total Board Shipments to Ontario and Quebec, 1947-60 . .	87
15.	Integrated Firms' Shares of Total Board Shipments to the Prairie Market, 1947-60 . . .	89
16.	Integrated Firms' Shares of Total Board Shipments to Maritime Provinces, 1947-60 . . . . .	91
17.	Share of Each Stated Integrated Producer's Total Domestic Shipments of Board Sent to Its Own Converting Mills, 1955-60 . . . . .	95
18.	Dates of Increases in Maximum Ceiling Prices and Dates of Suspension of Price Ceilings, Containerboard and Shipping Containers . . . . .	106
19.	The Paperboard Shipping Container Industry, Schedule of Effective Dates of General Price Change, October, 1947 . . . . .	281
20.	The Paperboard Shipping Container Industry, Schedule of Effective Dates of General Price Change, October, 1948 . . . . .	307
21.	The Paperboard Shipping Container Industry, Schedule of Effective Dates of General Price Change, 1953 . . . . .	372
22.	Pulp Mills: Total Sales of All Shipping Case Materials, 1937-54 . . . . .	410
23.	Total Shipments (Domestic and Export) of Shipping Case Materials, Bathurst and St. Lawrence, 1947-54 . . . . .	411
24.	Prices of Pacific Mills' Products, 1939 and 1955 . . . . .	613
25.	Canadian Boxes: Investments and Earnings . . .	615
26.	Canadian Boxes: Profits before Income Tax, and Certain Expenses, as Percentages of Value of Sales . . . . .	616



## INTRODUCTION

### 1. Reference to the Commission

This inquiry came before the Commission pursuant to Section 18(1) of the Combines Investigation Act, R.S.C. 1952, Chapter 314, as amended by Chapter 51 of the Statutes of Canada, 1953-54, which prior to the amendment by S.C. 1960, Chapter 45, read as follows:

"18. (1) At any stage of an inquiry,

(a) the Director may, if he is of the opinion that the evidence obtained discloses a situation contrary to section 32 or 34 of this Act, or section 411 or 412 of the Criminal Code, and

(b) the Director shall, if so required by the Minister,

prepare a statement of the evidence obtained in the inquiry which shall be submitted to the Commission and to each person against whom an allegation is made therein."

The inquiry came before the Commission when the Director of Investigation and Research under the Combines Investigation Act submitted a Statement of Evidence in five volumes dated December 31, 1959 to the Commission.

On January 15, 1960 copies of the Statement of Evidence were sent to the parties against whom allegations were made in it.

### 2. Allegations

The Statement of Evidence contained the following allegations:

"5. It is alleged that, during the period commencing in 1947 and continuing into 1959, the corporations and individual named in paragraph 8, at all relevant times mentioned in paragraph 8, were parties or privies to or knowingly assisted in, the formation and operation of a combination having or designed to have the effects of fixing common prices for corrugated paperboard shipping containers and parts, enhancing the prices thereof, preventing or lessening competition in the production and sale thereof and substantially controlling their production and sale throughout Canada and in its several marketing districts, and otherwise restraining or injuring trade or commerce in these products. By virtue of the fact that the said corporations controlled virtually the entire production and sale at all relevant times, and because the combination had the effects specified, it has operated and is likely to operate to the detriment or against the interests of the public and therefore is a combine contrary to Section 32 of the Combines Investigation Act.

6. It is further alleged that the said corporations and individual, during the periods mentioned, arranged among themselves to enhance unreasonably the prices of the said products, prevent or lessen competition unduly in the production and sale thereof, and otherwise restrain or injure trade or commerce in relation thereto, contrary to Section 411 of the Criminal Code.

7. It is further alleged that each of the following acquisitions was a 'merger, trust or monopoly' within the meaning of Section 2(e) of the Combines Investigation Act; that each has operated or is likely to operate to the detriment or against the interests of the public; and that in each case the acquiring company, or companies, were therefore parties to a combine contrary to the said Act. The acquisitions were by way of acquiring control over or an interest in the whole or part of the business of the acquired companies, as later described herein:

- a) Acquisition of Canadian Boxes Limited by Pacific Mills, Limited, in February 1945.
- b) Acquisition of Canadian Western Box (Alberta) Limited, on December 1, 1947, by Martin Paper Products Limited.
- c) Acquisition of Shipping Containers Limited by Bathurst Power & Paper Company Limited on September 30, 1945.

- d) Acquisition of Kraft Containers Limited by Bathurst Power & Paper Company Limited on January 1, 1946.
- e) Acquisition of Canadian Wirebound Boxes, Limited, by Bathurst Power & Paper Company Limited on October 1, 1954.
- f) Acquisition of Martin-Hewitt Containers Limited by Hinde and Dauch Paper Company of Canada, Limited, on January 7, 1954.
- g) Acquisition of The Corrugated Paper Box Company, Limited, and its subsidiary Hilton Bros. Ltd., in July 1954, by Hinde and Dauch Paper Company of Canada, Limited.
- h) Acquisition of Norwood Box Co. Ltd. by Bathurst Containers Limited on June 14, 1958.
- i) Acquisition of Hygrade Containers Limited by Canadian International Paper Company on May 20, 1955.
- j) Acquisition of a half-interest in the share capital of Martin Paper Products Limited by MacMillan & Bloedel Limited effective January 1, 1958, and the sale of the said half-interest by Powell River Company Limited.
- k) Acquisition, by Minas Basin Pulp and Power Company Limited of 8,300 shares and by Bathurst Power & Paper Company Limited, of 5,250 shares, of the common stock of Maritime Paper Products Limited, on or about December 12, 1958.
- l) Acquisition by St. Lawrence Corporation Limited of the majority stock interest in Hinde and Dauch Paper Company of Canada, Limited, on June 1, 1959."

(Statement of Evidence,  
Vol. I, pp. 5-7)



The Combines Investigation Act as cited above has been revised since the date on which the Director submitted his Statement of Evidence, by "An Act to Amend the Combines Investigation Act and the Criminal Code", S.C. 1960, c. 45. The amending Act, among other things, amended section 2, and repealed section 32 of the Combines Investigation Act and section 411 of the Criminal Code. In their place a new section 32 of the Combines Investigation Act was passed. The new section 32(1) imported into the Combines Investigation Act, with slight changes, the language of section 411(1) of the Criminal Code (section 23, Chapter 45, Statutes of 1960). Section 32(1) now reads as follows:

- "32. (1) Every one who conspires, combines, agrees or arranges with another person
- (a) to limit unduly the facilities for transporting, producing, manufacturing, supplying, storing or dealing in any article,
  - (b) to prevent, limit or lessen, unduly, the manufacture or production of an article, or to enhance unreasonably the price thereof,
  - (c) to prevent, or lessen, unduly, competition in the production, manufacture, purchase, barter, sale, storage, rental, transportation or supply of an article, or in the price of insurance upon persons or property, or
  - (d) to restrain or injure trade or commerce in relation to any article,

is guilty of an indictable offence and is liable to imprisonment for two years."

Section 22 of the amending Act further provided:

"22. Except to the extent that subsection (1) of section 32 of the Combines Investigation Act as enacted by this Act is not in substance the same as section 411 of the Criminal Code as in force immediately before the coming into force of this Act, the said subsection (1) of section 32 of the Combines Investigation Act shall not be held to operate as new law, but shall be construed and have effect as a consolidation and as declaratory of the law as contained in the said section 411 of the Criminal Code."

With these changes in the legislation in mind the Director, at the hearing before the Commission referred to later in

the Introduction, reframed his allegations as follows:

"In order to do this, the allegations of paragraphs 5 and 6 may be restated as follows: during the period 1947 to 1959, the persons named in paragraph 8 of the Statement were parties to a conspiracy, (a) to prevent or lessen competition unduly, contrary to Section 411(1)(d) of the Criminal Code, by fixing common prices for corrugated shipping containers and by adopting other common practices of a restrictive nature as described in the evidence; (b) to enhance unreasonably the prices of such containers, contrary to Section 411(1)(c) of the Criminal Code; and, (c) to restrain or injure trade or commerce in such containers, contrary to Section 411(1)(b) of the Criminal Code, by adopting other common practices as described in the evidence which do not fall within the ambit of Section 411(d)."

(Hearing, p. 123)

At the hearing Mr. John J. Robinette, Q.C., one of the counsel appearing for Canadian International Paper Company and Hygrade Containers Limited, submitted that:

"...since the acquisition of the shares of Hygrade occurred in 1955, the charge in respect of the illegal merger must be dealt with by the commission as the law stood prior to the amendment, in the middle of this year, of the Combines Investigation Act. In other words, the legality or illegality of the merger must be determined, in our submission, according to the old act prior to the 1960 amendments, in the light of the authoritative interpretation of that act by Chief Justice McRuer and Chief Justice Williams."

(Hearing, p. 1427)

Particulars of the allegations stated above were set out in the Statement of Evidence as follows:

"343. The allegations concerning the existence of combines, contrary to the anti-combines legislation, in the manufacture and sale of corrugated shipping containers, have been set out in general terms in paragraphs 5 and 6 of Chapter II. The following paragraphs summarize the effect of the evidence and give precision to the allegations.

344. During 1947, F.C. Hayes and a committee representing the manufacturers of corrugated shipping containers negotiated arrangements for the establishment of CONTAINER STATISTICS, as a limited company under Mr. Hayes's

ownership and management. By the fall of 1948 all the existing manufacturers in Canada entered into tripartite contracts with this company and Mr. Hayes, or else made informal arrangements for the supply of services to them by Mr. Hayes, which services were the same as those supplied by his company to others under the contracts.

345. One of the principal services so supplied to the manufacturers was the so-called 'cost manual'. This was a modification of a pricing manual authorized for use by the industry under the Wartime Prices and Trade Board orders issued during wartime price control. By the use of this manual, the manufacturers were enabled to arrive at a uniform total 'cost' for any given specification for corrugated containers and parts, including sheets and partitions. During the currency of the wartime pricing manual, this total cost became the ceiling price when it was marked up by a percentage which was set out in the manual. The new 'cost manual' did not include any prescribed percentage mark-up.

346. The new cost manual was taken into effect by each of the manufacturers in Western Canada in July 1948 and continued to be used by them, as revised from time to time, until July 1954, when MARTIN PAPER withdrew its support. It was taken into effect by all the manufacturers in Eastern Canada in the fall of 1948 and continued to be used by them, as revised from time to time, until 1959, when the evidence ceases, and except as indicated below.

347. It was represented, in parts of the evidence, that revisions of the manuals were determined by cost changes revealed by investigations made by Mr. Hayes, in consultation with the cost departments of certain manufacturers, and that manufacturers decided, by unilateral decision, whether to adopt or reject such revisions. The weight of the evidence shows, however, that in practice, revisions were made only after consultation and final agreement; when formulated they were adopted by all; and it was mutually intended and understood that they should be so adopted. Manuals used by the different manufacturers in any given marketing district were therefore completely uniform, except as herein set out.

348. Except as indicated below, common mark-ups were applied by the manufacturers in each of the several marketing divisions to the applicable total manual costs, with the result that their selling prices were uniform. It was mutually understood that such common mark-ups would be so applied and information about the amount of them was from time to time disseminated to the manufacturers by Mr. Hayes.

349. Mr. Hayes's office acted as a clearing house for information as to the correct application of the manual to doubtful specifications and, in addition, personnel at various companies communicated with each other in this regard. On occasion Mr. Hayes wrote to some particular company asking for information as to how the manual had been applied in a particular specification and communicated such information to another company. By such means the uniform application of the manual and consequently the quotation of common prices was assisted.

350. The pricing records and invoices of the individual companies, examined in detail for a period before and after each price change made during the period 1948 to 1954, confirm that the said agreement was fully effective.

351. In Eastern Canada, certain products were the subject of special lists of prices or manual costs, circulated by Mr. Hayes among the manufacturers interested in the sale of the products concerned. One of these products, single-faced rolls, was subject to a quantity price structure, and for this reason costs could not be determined by use of the manual. Accordingly the applicable list was always a selling price list and efforts were made to conceal the fact that it emanated from Mr. Hayes's office. Lists for canners' and brewery cartons issued by Mr. Hayes were of total manual costs before mark-up, and were put out because of the possibility of price variation arising from minor variations in size. The costs used in building up these lists were in accordance with the cost manual. After this investigation began, these lists were no longer initiated by Mr. Hayes, but instead price lists for the same products, initiated by BATHURST, were circulated to interested manufacturers.

352. Throughout the period, certain specialty products involving unusual operations, were priced by some of the manufacturers on the basis of their own cost departments' estimates and at a level higher than that derived by the use of the manual and current mark-up. On one occasion, small



quantity upcharges were adopted by some manufacturers before they became part of the manual. These deviations from standard practice indicate that the agreement did not require price identity but only the maintenance of minimum prices.

353. Throughout the period a limited number of customers received confidential price concessions. Such concessions were a feature of the pricing system in this industry during the currency of the CML combine and their existence was known to all members of the trade when the CONTAINER STATISTICS pricing system was set up. During the period before this investigation began, the number of such concessions was declining, but after that there was an increase in number. There is no evidence of competitive rivalry among the manufacturers for the business of these special accounts. It appears that the extension of such concessions was permitted under the agreement so as to protect the agreed-upon price structure applicable to all other customers.

354. Of the leading board manufacturers, HINDE & DAUCH, GAIR, BATHURST and CROWN ZELLERBACH directly participated in the price-fixing activities of the container manufacturers. ST. LAWRENCE, through its collaboration with these companies, chiefly in the maintenance of uniform prices, terms and conditions of sale for containerboard, knowingly assisted in the operation of the combine. The maintenance of such uniformity was essential to the successful operation of the manual system since containerboard costs represented the bulk of the industry's raw material costs and were of the order of 65 to 70 per cent of total selling value of the finished products. Although the prices of containerboard sold by the minor board suppliers such as STRATHCONA, DRYDEN, MINAS BASIN and ANGLO-CANADIAN were the same or higher than those charged by the leading mills, there is no evidence that they knowingly assisted in the operation of the combine. ABITIBI took no part, and although the board prices of C.I.P. have been the same as other board mills, and its subsidiary HYGRADE was a party to the alleged combine, there is no evidence of direct participation by C.I.P.

355. The separate pricing manual inaugurated by HINDE & DAUCH on the occasion of the price increase in the fall of 1953 was an adaptation of the CONTAINER STATISTICS manual which had been newly revised. Adoption of the HINDE & DAUCH version resulted only in nominal differences in selling prices. Since that time the apparent

differences have been enlarged and a mark-up structure adopted which differs from the other manufacturers in the central provinces. Nevertheless, the difference in prices of common containers when calculated through the two manuals and mark-up structures remains nominal. The evidence is not consistent with the conclusion that the company has departed from the alleged agreement.

356. A large part of the business done by HENDERSHOT has been subject to price concessions having their origin in contracts entered into before their admittance into the C.M.L. combine. Their existence was known to the other manufacturers when the present combine was formed. The number of such concessions was being reduced during the period up to the time that this investigation began. All other customers were charged prices in accordance with the agreement. This evidence does not contradict the conclusion that the company was a party to the agreement.

357. Oral evidence was given by witnesses representing ACME to the effect that that company constantly departed from the prices determined through the regular manuals and mark-up structure. For the only period when pricing records were available from this company, many of its individual invoices were in accordance with the manual system, a few were above it and a few special customers were accorded discounts from it. This evidence does not contradict the conclusion that this company was a party to the agreement, in view of its participation in the general scheme.

358. DOMINION CORRUGATED was a party to the agreement until 1952 when it ceased to subscribe to the services of CONTAINER STATISTICS. It does not so subscribe at present.

359. MARTIN PAPER was a party to the combine until June 1954 when it withdrew, as soon as possible after the new management appointed after the company's acquisition by POWELL RIVER became aware of its participation. This company was so important a factor that any overall price agreements in Western Canada were thereby rendered ineffective. In British Columbia and Alberta, moreover, U.S. competition had become a factor of considerable importance starting in 1952 and caused a departure from the trend of upward prices applicable to the rest of Canada. This narrowed and finally eliminated the price differential in favour of western over eastern prices. This U.S. com-



petition has continued to the present to set the level of competitive prices for these districts. The evidence does not indicate that there has been any resumption of the agreement in Western Canada after it was disrupted by the defection of MARTIN PAPER in 1954. On the other hand, in meeting the U.S. price competition, the initiative has been taken by CROWN ZELLERBACH, and MARTIN PAPER has adopted a policy of following the price leadership of CROWN ZELLERBACH in relation to all its commodity lists. In the event that U.S. competition were to disappear, and the policy of the Canadian companies remained unchanged, this could have effects in British Columbia exactly the same as those which would result from overt price agreement. MARTIN PAPER has recently entered into arrangements for the use of Mr. Hayes's services as a consultant during 1959, while CROWN ZELLERBACH retained this connection throughout the period of MARTIN PAPER's absence. In view of the history of price agreement under C.M.L. and CONTAINER STATISTICS, the existence of uniform commodity list prices between MARTIN PAPER and CROWN ZELLERBACH and the common action taken by these companies to combat U.S. competition, the resumption of MARTIN PAPER of relations with F.C. Hayes is likely to result in a renewal of the unlawful agreements whenever market conditions become propitious.

360. The evidence, in respect of the Okanagan Packaging Limited incident, does not demonstrate agreement between CROWN ZELLERBACH and MARTIN PAPER with respect to prices, nor does it demonstrate that either manufacturer engaged in a policy of selling containers at unreasonably low prices or any other behaviour contrary to the anti-combines legislation. The prices established for the fruit packers by the British Columbia manufacturers were sufficiently low to secure the business for the domestic industry and they were the result of competitive bargaining between the Okanagan Federated Shippers Association and the Canadian and U.S. suppliers. The evidence in respect of this incident does however show that import competition is likely to be most effective, in keeping down domestic prices, when there is an independent converting and distributing industry in a position to look abroad for favourable sources of supply; and it shows how the domestic market can be insulated against the effects of import competition when the suppliers in the domestic market are few and completely integrated.

361. The evidence provides a detailed picture of the behaviour of the industry up to about 1954 and a less detailed picture thereafter. Besides the general effect of preventing or lessening competition unduly, the evidence includes numerous examples of anti-competitive behaviour and some of their results as follows:

- (a) Adherence to a system of common delivered prices in each zone, designed to minimize inter-regional competition and having the tendency to cause the misallocation of resources;
- (b) The fixing of common terms and conditions of sale;
- (c) Unreasonable enhancement of prices;
- (d) Collaboration to postpone the introduction of new products;
- (e) Failure to maintain containerboard in free supply;
- (f) Participation in statistical interchanges, having the tendency to promote adherence to stable market positions;
- (g) Adherence to restrictive practices in the distribution of containerboard supplies;
- (h) The favouring of integrated producers in the supplying of containerboard;
- (i) The creation of conditions in the Prairie Provinces less conducive to industrial development than those of Eastern Canada.

362. Between 1945 and 1959, inclusive, various companies acquired control over or an interest in the whole or part of the business of another company, as listed in paragraph 7. These mergers must be regarded, not merely individually or in isolation, but in the light of the industry arrangements and practices described in this Statement as existing from the 1930's to 1959 inclusive. It is, in considerable measure, because of such continuing arrangements and practices that the effects of the mergers have been, and will continue, detrimental. (Conversely, the arrangements and practices must be regarded, not only standing alone, but also in the light of the integrations, by way of mergers, which

have taken place in the industry). The detriment to the public common to all these mergers, except the acquisition of Canadian Western Box (Alberta) Limited by MARTIN PAPER, derives from the fact that in each case a shipping container manufacturer, formerly independent of the board mills in ownership and management, has been acquired by a board mill and has become part of its integrated operations. The competition arising from the divergent interests of the two branches of the industry, which in the absence of an agreement such as alleged in paragraphs 5 and 6 would safeguard the interests of users of shipping containers and of the general consuming public, has been pro tanto foreclosed. The process of integration has already proceeded to the extent that only a very small segment of the shipping container industry remains independent of the board mills. In consequence, even after the elimination of the agreement alleged in paragraphs 5 and 6, the possibility of future competition is impaired because:

- (a) New entries into the industry of containerboard manufacturing will be discouraged by the fact that existing outlets for the sale of board have nearly all been absorbed by the present board manufacturers.
- (b) The most likely importers of containerboard have been brought under the ownership and control of the containerboard manufacturers. The restraining influence of actual or potential competition from abroad is thereby curtailed.
- (c) The most significant purchasers of containerboard have been brought under the ownership and control of the containerboard manufacturers and will not shop around among such manufacturers for their requirements.
- (d) New entries into the industry of converting containerboard into boxes will be discouraged by the fact that all or most of the significant existing converters are integrated with containerboard manufacturers thus putting new entrants in danger of a 'squeeze' between containerboard costs and box prices.
- (e) The bulk of the business is now largely concentrated in a few integrated producers, all having a record of anti-competitive behaviour in this industry, and most of them in another sector of the pulp and paper

industry. Two companies, BATHURST and ST. LAWRENCE, on the basis of 1958 figures, now account for approximately 60 per cent by volume of the total shipments of containers in Eastern Canada and are also important producers in the Prairies. Recent figures for containerboard are not in evidence, but the same two companies remain the leaders in the production of containerboard. Their combined market shipments, however, are a smaller proportion than would be indicated by the 1954 figures when they, together with HINDE & DAUCH, now wholly-owned by ST. LAWRENCE, supplied 77 per cent of the total domestic shipments made in Canada as a whole. Under the market structure brought about by the mergers, anti-competitive behaviour does not require forms of organization and methods of consultation which are readily capable of detection and correction.

The detriment in respect of the excepted merger lies in the elimination of competition, without any compensating advantages to the public, which it entailed. In addition to the general detriment referred to above, the various mergers gave rise to particular detriment as follows:

(a) Acquisition of CANADIAN BOXES by CROWN ZELLERBACH in February 1945.

1. The creation of a monopoly in the manufacture of shipping containers in British Columbia.
2. The purchase price was greatly in excess of the value of the physical assets acquired and its effect was to saddle the newly-acquired enterprise with unjustifiably high overhead costs which contributed to the enhanced prices for shipping containers charged to buyers in British Columbia.
3. The resultant monopoly was exploited for many years by the charging of monopoly prices, the earning of excessive profits and the failure to keep pace with technical progress in the industry. The last-named failure is found in such matters as the continued non-production of .025 liner, and the shipping containers manufactured therefrom, which grades were standard throughout the rest of Canada and the United States; the continued adherence to two grades of liner,



instead of a variety of grades as were standard in the United States; and continued emphasis on the production of solid fibreboard shipping containers largely superseded elsewhere.

(b) Acquisition of Canadian Western Box (Alberta) Limited, on December 1, 1947, by MARTIN PAPER.

1. Elimination of the only shipping container manufacturer who was independent of the organized industry and a requirement that the organizers of the acquired company abstain from future competition for a period of ten years.
2. Paving the way for price agreement between PACIFIC MILLS and CANADIAN BOXES on the one hand, and MARTIN PAPER and HILTON on the other.
3. The purchase price was greatly in excess of the value of the physical assets acquired and inflated the overhead costs to be borne by users of corrugated shipping containers and, through them, the general public.

(c) Acquisitions by BATHURST: SHIPPING CONTAINERS and KRAFT CONTAINERS (1945-46), CANADIAN WIREBOUND (1954), NORWOOD (1958) and interest in MARITIME (1958).

1. In connection with each of these mergers except that involving a minority stock interest in MARITIME, which was not investigated from this point of view, the purchase price was greatly in excess of the value of the physical assets acquired and the effect was to saddle the converting branch of BATHURST with unduly high overhead costs, which must be borne in the final analysis by users of shipping containers and the general public.
2. A potential new entrant into the shipping container industry was induced to abandon its intention to enter, as part of the consideration in the purchase of SHIPPING CONTAINERS and KRAFT CONTAINERS.
3. The succeeding acquisitions of the three Central Canadian converters eliminated important potential competition among them.

4. The acquisition of NORWOOD eliminated the competition of a new entrant into the industry, independent of the organized industry, whose continued existence would have provided an important safeguard to the public. An agreement was reached with the former owners not to compete for five years.
  5. The acquisition of a minority stockholding and a voice in the management of MARITIME, together with a contractual right to purchase the shares of the majority stockholder in the event of its deciding to sell them, impaired potential future competition in the Maritimes. WILSON, the only other shipping container manufacturer in the Maritimes, which heretofore secured its supplies solely from BATHURST, was placed in a position of potential squeeze between containerboard costs and box prices. Prior to the acquisition, MARITIME was one of the most likely companies to undertake independent competitive action, since it was less dependent upon the organized industry for board supplies, which it obtained principally from its major shareholder, MINAS BASIN.
- (d) Acquisitions by HINDE & DAUCH: CORRUGATED PAPER BOX, its subsidiary HILTON, and MARTIN-HEWITT (1954).
1. For the year 1953, before these acquisitions were made, HINDE & DAUCH already accounted for about 25 per cent of the value of industry sales in Ontario and Quebec. CORRUGATED PAPER BOX represented a further 3.6 per cent of the business and MARTIN-HEWITT 1.6 per cent. HILTON did 32 per cent of the combined business of manufacturers in the Prairies. The absorption of these firms resulted in the elimination of important future potential competition among HINDE & DAUCH, CORRUGATED PAPER BOX, MARTIN-HEWITT and HILTON.
  2. The purchase prices were greatly in excess of the value of the physical assets acquired and the effect was to saddle the enterprise with unduly high overhead costs which had to be borne by the public.
  3. The productive facilities of CORRUGATED PAPER BOX were dismantled and removed at a time when the industry was expanding to meet a growing demand for shipping containers.



- (e) Acquisition by ST. LAWRENCE of HINDE & DAUCH (1959).

The merger resulted in the elimination of the last significant manufacturer of containerboard not also engaged in the conversion of shipping containers, thus leaving no important and independent domestic source of supply for independent converters in Eastern Canada.

- (f) Acquisition of MARTIN PAPER by POWELL RIVER and subsequent sale of a half-interest to MACMILLAN (1959) [Sic - 1958].

1. The amount paid by MACMILLAN for its half-interest was greatly in excess of the value of the physical assets represented thereby and the effect was to saddle the enterprise with unduly high overhead costs which had to be borne by the public.
2. The merger permits and an agreement has been reached between POWELL RIVER and MACMILLAN under which MACMILLAN adopts a pricing policy for containerboard which recognizes CROWN ZELLERBACH as the price leader. This will be likely to have the same result as if these two companies were parties to a price agreement.
3. The cost of paperboard to MARTIN PAPER has been inflated. This will likely result in a corresponding inflation of the prices of shipping containers in British Columbia and Alberta.
4. Elimination of a non-integrated producer of shipping containers which had demonstrated its capability of independent action by expanding into the British Columbia market, hitherto the monopoly of CROWN ZELLERBACH, and by importing its requirements of board to sustain that venture.

- (g) Acquisition of HYGRADE by C.I. P. (1954).

The purchase price was greatly in excess of the value of the property acquired and was calculated to saddle the enterprise with unduly high overhead costs which had to be borne by the public."

The following is a list of the individual persons and of the companies against whom the Director's allegations are made. These companies may hereinafter be referred to by the abbreviated names set opposite them:

F. C. Hayes

Container Statistics Limited

Container Statistics

Acme Paper Products  
Company Limited

Acme

Bathurst Power & Paper  
Company Limited

Bathurst

Canadian Boxes Limited

Canadian Boxes

Canadian Wirebound Boxes,  
Limited

Canadian Wirebound

Champlain Paper Box Limited

Champlain

Continental Can Company  
of Canada Limited

Continental Can

The Corrugated Paper Box  
Company Limited

Corrugated Paper Box

Crown Zellerbach Canada  
Limited

Pacific Mills or Crown  
Zellerbach

Dominion Corrugated Paper  
Company, Limited

Dominion Corrugated

Dominion Containers  
Limited

Dominion Containers  
or Standard

Gair Company Canada Limited

Gair

Hendershot Paper Products  
Limited

Hendershot

Hilton Bros. Ltd.

Hilton

Hinde and Dauch Paper  
Company of Canada,  
Limited

Hinde & Dauch

Hygrade Containers Limited

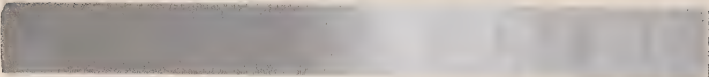
Hygrade

Kraft Containers Limited	Kraft Containers
Maritime Paper Products Limited	Maritime
Martin-Hewitt Containers Limited	Martin-Hewitt
Martin Paper Products Limited	Martin Paper
St. Lawrence Corporation Limited	Brompton; St. Lawrence
Sherbrooke Paper Products Limited	Sherbrooke
Shipping Containers Limited	Shipping Containers
Superior Box Company Limited	Superior
Wilson Boxes, Limited	Wilson
Brompton Pulp & Paper Company Limited	Brompton
MacMillan & Bloedel Limited	MacMillan & Bloedel
Pacific Mills, Limited	Pacific Mills
Canadian International Paper Company	C.I.P.
Bathurst Containers Limited	Bathurst Containers
Minas Basin Pulp and Power Company Limited	Minas Basin

The only allegation against the five last named firms is that of merger.

The following is a list of corporations mentioned in the Director's Statement of Evidence but against whom no allegations are made. These companies may hereinafter be referred to by the abbreviated names set opposite them.

Abitibi Power & Paper Company, Limited	Abitibi
--	---------

Anglo-Canadian Pulp and Paper Mills Limited	Anglo-Canadian
Canadian Western Box (Alberta) Limited	Canadian Western Box
Direct Mail Advertising Limited	
Dryden Paper Company Limited	Dryden
	
Norwood Box Co. Ltd.	Norwood
Pembroke Shook Mills, Limited	Pembroke Shook Mills
Powell River Company Limited	Powell River
Sidney Roofing & Paper Co., Ltd.,	Sidney Roofing
Strathcona Paper Company Limited	Strathcona

3. Conduct of the Inquiry

(a) By the Director

The Statement of Evidence has the following to say as to the origin of the present inquiry:

"2. In 1953, as a result of complaints alleging restrictive practices, an inquiry was commenced in the paperboard and paperboard container industries. Searches were made of the files of companies engaged in the production of both boxboard and containerboard grades of paperboard and of companies engaged in manufacturing corrugated shipping containers and set-up and folding boxes. An examination of the evidence thus obtained indicated clear-cut restrictive arrangements relating to boxboard grades of paperboard and this aspect of the inquiry was first proceeded with, a Statement of Evidence being submitted to the Restrictive Trade Practices Commission and the parties in September 1955 and the report of the Commission being published in

June 1956. The containerboard/corrugated box aspect turned out to be much more complicated than the boxboard aspect and, while it was possible to do a considerable amount of work upon it while the boxboard inquiry was current, the greater part of the work had to be taken up upon the conclusion of that case. When the hearing of oral evidence was resumed in 1957, it was apparent that the boxboard inquiry and report had not resulted in the abandonment of restrictive arrangements in respect of shipping containers. The shipping container inquiry was proceeded with and, in May 1959, when the Statement of Evidence was almost completed, a final survey of industry practices was made by securing written returns of information from the companies concerned."

(Statement of Evidence, Vol. I, p. 1)

Searches of the premises of companies engaged in the manufacture of paperboard and of companies engaged in the manufacture of paperboard boxes were made at various times during the years 1954, 1955, 1956 and 1959. During the course of this phase of the investigation, documents were removed from the premises of the firms and examined and photographed by the Director, being returned to the firms after their study had been completed. The documentary evidence obtained in this way will be referred to in this report by quoting the serial number and code letters which were affixed to each document by the examining officer, thus: (Serial . . .).

Witnesses were examined by representatives of the Director before either the Chairman or a Member of the Restrictive Trade Practices Commission, under the authority of section 17 of the Combines Investigation Act. A list of the witnesses who appeared and the companies they represented, together with the places and dates of their appearances, is given below:

#### TORONTO

March 5 to 9, 1956

E.P. Tunnicliff	Supervisor of Order Writing	Gair
Miss J.E. Tilston	Head, Invoicing Department	Gair
L.V. Powell	Sales Correspondent	Gair



W.J. Lloyd	Sales Supervisor	Canadian Wirebound
Cyril Baird	Sales Accountant	Hinde & Dauch

#### HAMILTON

March 12, 1956

Arnold Crawford	Pricing Supervisor	Bathurst Containers
Glenn McGill	Salesman, Container Division	Bathurst
J.G. Leishman	Pricing Clerk	Hendershot

#### LONDON

March 13, 1956

H.C. Wonnacott	Secretary	Hygrade
----------------	-----------	---------

#### TORONTO

March 14 to 16, 1956

H.E. Oyler	Sales Manager	Hinde & Dauch - formerly of Corrugated Paper Box
W.F. Ireland	Formerly General Superintendent	Corrugated Paper Box
Harry Gee	Assistant Secretary	Hinde & Dauch
G.A. Taylor	Formerly Office Manager, Dominion Corrugated	Ford Motor Company

April 3 to 6, 1956

Wyman Grant,	Assistant Sales Manager, Gair Container Division	
--------------	--	--

W.W. Cherry	Sales Manager, Corrugated Division	Gair
Frank Kerr	Price Estimator	Acme
T.H. Mitchell	President	Direct Mail Advertising Limited
R.E. Diven	Manager of Sales, Central Division	Bathurst - formerly of Canadian Wirebound
M.H. McArthur	Vice-President, Shipping Container Sales	Hinde & Dauch

MONTREAL

April 9 to 20, 1956

V. Courchesne	Cost and Pricing Clerk, Order Department	Sherbrooke
A.B. Love	Sales Manager, Container Division	Dominion Containers
Jacques Dubois	Chief Price Estimator	Standard
Mrs. Irene Frenette	Clerk, Accounting Department	Standard
J.W. Bradbury,	Supervisor, Order Department	Bathurst Container Division - formerly of Shipping Containers
L.D. Richardson	General Manager	Bathurst Container Division - formerly of Shipping Containers



C.N. Moisan, Jr.	President and General Manager	Dominion Containers, Standard
J.J. Blais	Estimator	Champlain
J.R. Cote	General Manager	Champlain
W.H. Turner	Sales Manager, Corrugated Division	Bathurst - formerly of Canadian Wirebound
M.G. Sutcliffe	Assistant General Manager, Container Division	Bathurst
A.J. Nadeau	Office Manager, Sales Office, Montreal	Hinde & Dauch
M.C. Lanctot	Divisional Sales Manager, Montreal	Hinde & Dauch
J.M. Lambert	Manager, Product Research and Development and Sales Promotion	Standard

#### WINNIPEG

April 30 to May 4, 1956

F.V. Bigourdan	Production Scheduler	Martin Paper
N.W. Rose	Office Manager	Martin Paper
S.J. Cooper	Secretary	Martin Paper
J.R. Glynn	Vice-President of Production	Martin Paper
A.A. Baturin	City Order Clerk	Hilton
M.E. Crawford	Office Manager	Hilton
R.A. O'dowda	Sales Manager	Hilton

W.R. Hilton	President and General Manager	Hilton
G. W. McCullough	General Manager, Manitoba and Saskatchewan	Martin Paper
V. V. F. Bennington	Cost Accountant	Martin Paper
Benjamin Hatskin	President	Norwood - formerly President, Canadian Western Boxes Alberta Limited
A.C. Harrison	Manager	Norwood

#### CALGARY

May 8 and 9, 1956

Ernest Beech	Salesman	Martin Paper
G.A. Holland	Vice-President, Sales	Martin Paper
P.G. Welsh	General Purchasing Agent	Burns & Company Limited

#### VANCOUVER

May 14 to 19, 1956

W.L. Barker	Special Sales Representative	Canadian Boxes
W.F. Barr	General Manager	Sherbrooke
A.G. Griffith	Systems and Procedures	Crown Zellerbach
P.E. Cooper	Director	Pacific Mills Canadian Boxes

F.A. Scott	Vice-President, Sales	Crown Zellerbach
F.H. Brown	President	Martin Paper
H.S. Foley	Chairman of the Board	Powell River

SAINT JOHN

May 28, 1956

D.E. Hanson	Clerk	Wilson
F.J. Roderick	President	Wilson

HALIFAX

May 29 and 30, 1956

J.J. Jodrey	Vice-President and Managing Director	Minas Basin
M.D. Taylor	Office Manager	Maritime
J.M. Dunkin	Manager	Maritime

TORONTO

January 7 to 9, 1957

F.C. Hayes	President	Container Statistics
------------	-----------	-------------------------

January 10 to 18, 1957

J.A. Whealy	Formerly President and General Manager	Corrugated Paper Box
E.S. Kerr	President	Dominion Corrugated
J.C.S. Colclough	President and General Manager	Hendershot
Ira Good	President, Treasurer and General Manager	Superior

A.I. Oelbaum	Vice-President and Sales Manager	Acme
J.C. Oelbaum	Director	Acme

LONDON

January 29 to 31, 1957

H.C. Wonnacott	Secretary	Hygrade
R.G. Ivey, QC	President	Hygrade
Edward Wilkins	Director and General Manager	Hygrade

MONTREAL

February 5 to 11, 1957

H.S. Litteljohn	President, Kraft Containers, Acting Sales Manager, Container Division	Bathurst
A.M. Dunn	Consultant to President	Bathurst - formerly of Canadian Wirebound
G.T. Cockerill	Administrative Vice- President	Bathurst
Roger Godden	Sales Manager, Kraft and Board Division	St. Lawrence
V.E. Johnson	President	Canadian International Paper
C.N. Moisan, Jr.	President and General Manager	Dominion Containers, Standard

TORONTO

February 20 and 21, 1957

F.C. Hayes	President	Container Statistics
------------	-----------	-------------------------

March 4 to 7, 1957

W.H. Palm	President	Hinde & Dauch
-----------	-----------	------------------

P.J. Bernard	Director, Sales Development	Hinde & Dauch
--------------	--------------------------------	------------------

D.H. Ross	President and General Manager	Gair
-----------	----------------------------------	------

MONTREAL

April 1 to 4, 1957

G.T. Cockerill	Administrative Vice-President	Bathurst
----------------	----------------------------------	----------

R.L. Weldon	President	Bathurst
-------------	-----------	----------

WINDSOR

May 8 and 9, 1957

E.V. Anderson	Purchasing Agent	H.J. Heinz Company of Canada Limited
---------------	------------------	---

E.W. James	Purchasing Agent	Campbell Soup Company Limited
------------	------------------	-------------------------------------

Excerpts from the transcript of the examination of these witnesses will be cited as follows: (Evidence, p. . . .).

During the course of the inquiry returns of information were required of the companies which were the subject of the

inquiry, in accordance with section 9 of the Combines Investigation Act. These returns of information were ordered and received by the Director over a considerable period of time, beginning in early 1955 and extending through various dates in 1956, 1957 and 1958. When the Statement of Evidence was almost completed the Director made a final survey of industry practices by securing written returns of information in May, 1959. With regard to these last returns of information, the Statement of Evidence says:

"286. In view of the period of time over which the investigation had extended and of the many important changes of ownership in the industry since the investigation was initiated, a survey was made in 1959, by way of returns of information, to determine the current situation with respect to the practices described in this Statement. . . ."

(Statement of Evidence, Vol. IV, p. 860)

At the same time, a notice for return of information was also sent to Pembroke Shook Mills, which was just becoming established as a new entrant into the industry. As a result of the replies obtained at this time an additional notice for return of information was sent to Field Darch and Company, Chartered Accountants, Toronto. Returns of information will be referred to throughout this report as follows: (Return of Information. . . .), the name of the company making the return of information being indicated in the space left blank within the brackets.

(b) By the Commission

The Commission fixed Monday, the 12th day of September, 1960 at 10 o'clock in the forenoon in a Court Room of the Exchequer Court of Canada, Ottawa, as the date, time and place at which the hearing in this matter would be held by the Commission and at which argument in support of the Statement of Evidence might be submitted by, or on behalf of, the Director, and at which the parties against whom allegations had been made would be allowed full opportunity to be heard in accordance with section 18(2) and (3) of the Combines Investigation Act. At the request of counsel and officials of many companies the hearing was postponed to the 19th day of September, 1960 at the same time and place. As will be seen, hearings on the combination and merger aspects of the inquiry were divided. Hearings on the combination aspect of the inquiry were held on the dates September 19-23, 26 and 27, 1960 and were adjourned on the last-named date sine die. The hearings on the combination aspect resumed on November 7 and were completed on November 9, 1960.



At the opening of the hearing on September 19, 1960 the following appearances were made:

Mr. F.C. Gascoigne	for the Director of
Mr. F.N. MacLeod	Investigation and
Mr. D.A. Rankin	Research
Mr. Hazen Hansard, Q.C.	for Canadian International
Mr. J.J. Robinette, Q.C.	Paper Company
Mr. A.J. MacIntosh, Q.C.	Hendershot Paper Products Limited Hygrade Containers Limited
Mr. Joseph Sedgwick, Q.C.	for St. Lawrence Corporation
Mr. R. de Wolfe MacKay, Q.C.	Limited Hinde and Dauch Paper Company of Canada, Limited Martin-Hewitt Containers Limited Hilton Bros. Ltd.
Mr. Joseph Sedgwick, Q.C.	for Superior Box Company Limited
Mr. J.L. Farris, Q.C.	for Crown Zellerbach
Mr. H.P. Legg	Canada Limited Canadian Boxes Limited
Mr. D.C. McGavin, Q.C.	for Martin Paper Products (Holdings) Limited
Mr. J. Singer, Q.C.	for Acme Paper Products Company Limited
Mr. C.W. Brazier, Q.C.	for MacMillan & Bloedel Limited MacMillan, Bloedel and Powell River Limited
Mr. André Forget, Q.C.	for Bathurst Power & Paper Company Limited
Mr. J. Duchesneau	Bathurst Containers Limited Canadian Wirebound Boxes, Limited Kraft Containers Limited Shipping Containers Limited Wilson Boxes, Limited Frederick C. Hayes Container Statistics Limited Maritime Paper Products Limited



Mr. J.A. Robb	for Dominion Containers Limited Champlain Paper Box Limited Sherbrooke Paper Products Limited
Mr. J.D. Arnup, Q.C. Mr. J.S. McKinnon	for Gair Company Canada Limited Continental Can Company of Canada, Limited

At the hearing opening on November 7, 1960 the following appearances were made:

Mr. F.C. Gascoigne Mr. D.A. Rankin	for the Director of Investigation and Research
Mr. Hazen Hansard, Q.C. Mr. J.J. Robinette, Q.C. Mr. A.J. MacIntosh, Q.C.	for Canadian International Paper Company Hendershot Paper Products Limited Hygrade Containers Limited
Mr. Joseph Sedgwick, Q.C.	for St. Lawrence Corporation Limited Hinde and Dauch Paper Company of Canada, Limited Martin-Hewitt Containers Limited Hilton Bros. Ltd. Superior Box Company Limited
Mr. J.L. Farris, Q.C.	for Crown Zellerbach Canada Limited Canadian Boxes Limited
Mr. Andre Forget, Q.C. Mr. J. Duchesneau	for Bathurst Power & Paper Company Limited Bathurst Containers Limited Canadian Wirebound Boxes, Limited Wilson Boxes, Limited Frederick C. Hayes Container Statistics Limited Maritime Paper Products Limited

The Commission fixed the date, time and place for the argument on the alleged mergers in this case as Monday, November

28, 1960 at 10 o'clock in the forenoon in a Court Room of the Exchequer Court of Canada, Ottawa. The hearing regarding the alleged merger between Canadian International Paper Company and Hygrade Containers Limited occupied the whole of November 28. On November 29 argument was heard regarding the acquisition by Hinde & Dauch Paper Company of Canada, Limited of Martin-Hewitt Containers Limited and The Corrugated Paper Box Company, Limited and the alleged merger of St. Lawrence Corporation Limited and Hinde & Dauch. On November 30 argument was heard regarding the alleged merger of Martin Paper Products Limited and Canadian Western Box (Alberta) Limited.

At the November 28, 1960 hearing on the alleged merger of Canadian International Paper Company and Hygrade Containers Limited the following appearances were made:

Mr. F.C. Gascoigne	for the Director of
Mr. F.N. MacLeod	Investigation and
Mr. D.A. Rankin	Research
Mr. J.J. Robinette, Q.C.	for Canadian International
Mr. Hazen Hansard, Q.C.	Paper Company
Mr. A.J. MacIntosh, Q.C.	Hygrade Containers Limited

At the November 29, 1960 hearing on the acquisition by Hinde and Dauch Paper Company of Canada, Limited of Martin-Hewitt Containers Limited and The Corrugated Paper Box Company, Limited and on the alleged merger of St. Lawrence Corporation Limited and Hinde & Dauch the following appearances were made:

Mr. F.C. Gascoigne	for the Director of
Mr. F.N. MacLeod	Investigation and Research
Mr. Joseph Sedgwick, Q.C.	for St. Lawrence
Mr. W.E. Bronstetter	Corporation Limited
	Hinde and Dauch Paper
	Company of Canada,
	Limited

At the November 30, 1960 hearing on the alleged merger of Martin Paper Products Limited and Canadian Western Box (Alberta) Limited the following appearances were made:

Mr. F.C. Gascoigne	for the Director of
Mr. F.N. MacLeod	Investigation and Research
Mr. D.C. McGavin, Q.C.	for Martin Paper
	Products (Holdings)
	Limited

Argument regarding the acquisition by Bathurst Power & Paper Company Limited of Shipping Containers Limited, Kraft Containers Limited, Canadian Wirebound Boxes, Limited and Norwood Box Co. Ltd.; and regarding the acquisition of minority and majority interests in Maritime Paper Products Limited by Bathurst Power & Paper Company Limited and Minas Basin Pulp and Power Company Limited, respectively, was heard on December 6, 1960 at Ottawa, Ontario. At this hearing Mr. André Forget, Q.C., appeared for the Bathurst group and Messrs. F.C. Gascoigne and F.N. MacLeod for the Director.

The hearing on the acquisition of Martin Paper by Powell River and subsequent sale of a half interest in Martin Paper to MacMillan & Bloedel was held in Vancouver on December 19 and 20, 1960. The following appearances were made:

Mr. F.C. Gascoigne	for the Director of
Mr. F.N. MacLeod	Investigation and Research
Mr. C.W. Brazier, Q.C.	for MacMillan, Bloedel
	and Powell River Limited

At this hearing the following witnesses were examined:

Mr. R.W. Shaw	Executive Vice-President, MacMillan, Bloedel and Powell River Limited - formerly President, MacMillan & Bloedel Limited
Mr. G.P. Stirrett	Chairman of the Board, General Appraisal Co. Ltd.
Mr. W.R.C. Patrick, C.A.	Senior Partner, Patrick, McLaughlin Company
Mr. B.E. Bell	President, General Appraisal Co. Ltd.
Mr. D.C. O'Brien, C.A.	Price Waterhouse & Company
Mr. A.G. Sexsmith	Manager, Kraft Paper Sales, MacMillan & Bloedel Limited

The hearing on the acquisition of Canadian Boxes by Crown Zellerbach was held in Vancouver on December 20 and December 21, 1960. The following appearances were made:

Mr. F.C. Gascoigne	for the Director of
Mr. F.N. MacLeod	Investigation and Research

Mr. J.L. Farris, Q.C.	for Crown Zellerbach Canada
Mr. H.P. Legg	Limited and Canadian Boxes
	Limited

At this hearing the following witnesses were examined:

Mr. J.A. Young	Director, Crown Zellerbach Canada Limited
Mr. W.G. Barringer	Office Manager, Sales Division, Crown Zellerbach Canada Limited
Mr. J.M. Moynes, B.A., M.B.A., C.A.	Helliwell, MacLachlan & Company
Mr. R. Gourlay	Manager of Converted Products, Crown Zellerbach Canada Limited

Extracts from the transcript of the hearings before the Commission, except those held in Vancouver, will be referred to in this report as follows: (Hearing, p. . . .). The transcript of the Vancouver hearings will be cited as follows: (Vancouver Hearing, p. . . .).

Prior to the opening of the hearing on September 19, 1960, the Commission proposed that the parties submit briefs stating the positions that they intended to take. Briefs were received from Acme, C.I.P., Hygrade, Hendershot, Champlain, Dominion Containers, Sherbrooke, Martin Paper, the Bathurst group and Gair.

At the opening of the hearing before the Commission it was strongly urged upon the Commission by several counsel for many of the parties that it was unfair to lump together in one inquiry the examination of two very different types of alleged offences, namely, the conspiracy or combination and merger offences specified in the Director's Statement of Evidence. It was strongly urged: that the Commission should deal with the conspiracy aspect of the inquiry separately from the mergers; that each of the mergers should be dealt with by itself separately from each of the other mergers and separately from the conspiracy aspects of the case; that each merger should be the subject of a completely separate report; and that the conspiracy aspect also should be the subject of a separate report.

The Commission's ruling was that it was not prepared to exclude at that time any reference to mergers in hearing the conspiracy aspect of the inquiry. Evidence and argument would be heard regarding the conspiracy allegation and at the conclusion of it the Commission



would make a definite ruling as to whether the alleged conspiracy had a bearing on the merger allegations. The Commission ruled that it would not deal with merger matters, as such, at that stage, but only in so far as they had a bearing on the alleged conspiracy (Hearing, pp. 77-81). The hearing proceeded on that basis.

At the adjourned hearing on the conspiracy aspect of the inquiry the Commission ruled as follows on November 8, 1960:

"THE CHAIRMAN: I think the commission would agree that would be a reasonable arrangement. I should perhaps state the position the commission is taking in this: we have one statement of evidence arising out of what was one inquiry. The commission does not propose to make an order that the individual merger cases shall be heard separately; but we understand that all counsel have agreed that that is the way in which they desire to proceed. To meet the wishes of counsel we are prepared to set dates on which each one can be heard.

We take the position with regard to the report that we shall prepare subsequently, in accordance with the act, that we shall deal with each of the mergers separately in the report, in separate chapters.

In view of the allegations made, we will have to consider whether there is any relationship between the mergers and the alleged conspiracy - if we should come to the conclusion that there is a conspiracy, we would have to consider whether there is any such relationship, because it has been alleged, but bearing in mind, of course, in doing that, the effect of the jurisprudence, particularly the more recent jurisprudence. We will also have to bear in mind our function under the act which, as we understand it, involves some consideration of economic consequences, which would have to be dealt with probably separately from the legal consequences. That may make for a complicating factor in the preparation of the report, but that is the position which the commission feel would be the proper one for it to take, subject to any argument that counsel may wish to address to us on the point."

(Hearing, pp. 1203-04)

The Commission, with a view to having up-to-date information on a number of matters of interest in this inquiry, in mid-December, 1960 sent out a final request for returns of information to the parties covering the period 1955-60 inclusive. These returns of information were duly received. In the Statement of

Evidence the Director's statistics were chiefly concerned with the period 1948 to 1954 inclusive. The Commission, in this report, deals with that period and then discusses developments from 1954 to 1960.

4. Positions Taken by the Parties with Respect  
to the Director's Allegations

In the briefs submitted to the Commission prior to the opening of the hearings for argument the parties stated the positions which they would take. The arguments presented may be divided into two groups, those relating to the conspiracy or combination aspect of the case and those relating to the ~~merger~~ aspect of the case.

Some of the arguments presented on the conspiracy or combination aspect were common to two or more briefs. These common arguments, presented by the indicated companies, are summarized below:

- (1) Denial that the firms were parties to an unlawful combine or arrangement as alleged (Hygrade-Hendershot; Champlain; Sherbrooke; Dominion Containers).
- (2) Several firms explicitly, or by reference to Chapter XVI of the Statement of Evidence, denied all of the Director's allegations (Champlain; Dominion Containers; Bathurst; Martin Paper).
- (3) Some of the briefs declared that the firms involved were not, and never had been, members of, or knowingly assisted in the operation or formation of, a combine or arrangement, nor had they taken part in any alleged conspiracy or made any agreement, express or implied, to sell boxes and corrugated single-faced rolls at manual cost plus fixed additional percentages, or at prices fixed by Container Statistics or any other group (Acme; Gair).
- (4) Several firms argued that in view of the competition in the industry and the variations in prices and procedure and in view of their attitudes towards competitors the companies were not party to any combination or conspiracy of the type alleged in paragraphs 5 and 6 of the Statement of Evidence (Champlain; Dominion Containers).



(5) The Director is unable to show that the companies' activities have operated, or are likely to operate, to the detriment or against the interest of the public, the facts being to the contrary (Hygrade-Hendershot).

(6) The companies' activities did not unduly restrict competition (Hygrade-Hendershot).

(7) The companies' activities did not have the effect, nor were they designed, to unreasonably or unlawfully enhance prices or profits (Hygrade-Hendershot; Champlain; Dominion Containers; Sherbrooke).

(8) The inferences drawn by the Director from the exhibits and evidence adduced are not capable of being so drawn on a fair reading of the evidence and exhibits. The express denials of any agreement sworn to by witnesses of the companies should be accepted (Gair; Hygrade-Hendershot).

(9) The manual prepared by Container Statistics was not a pricing manual. It was not a means of establishing previously-agreed-on prices (Dominion Containers; Gair).

In addition to the foregoing arguments which were advanced by more than one party under the inquiry, the following points were advanced for particular companies.

On behalf of Acme the following submissions were made:

(1) A.R. Oelbaum attended only one meeting, about 1952.

(2) A.R. Oelbaum did not know and would not recognize the principal officers of the container companies in the Toronto area if he saw them.

(3) Acme had no membership in the Canadian Pulp and Paper Association.

(4) Production and shipment figures on paper and paperboard were not supplied by Acme to the Canadian Pulp and Paper Association or anyone else.

(5) The company never manufactured to specifications of the Trade Customs of the Canadian Pulp and Paper Association, but only to the specifications of the freight classification of the Canadian Freight Association.

(6) Acme denied having attended any meeting with Hayes, except possibly during the war period when Hayes was the Administrator of Shipping Cases.

(7) Acme never discussed with Hayes, or other persons in the industry, the proposed sheets to be used for the manual.

(8) Discounts given varied with the customer, conditions existing at the time of sale, and the quantities purchased.

(9) The standard pricing lists for brewery cartons, canners' cartons and corrugated single-face rolls were not used by the company to set actual selling prices. Acme granted discounts from the prices specified in the standard lists.

(10) The manual published by Container Statistics was not a pricing manual but was used only to determine costs. The use of the manual provided a method of saving the time and work required by the ordinary method of costing.

(11) The prices charged by Acme were both above and below the manual costs plus the alleged standard mark-up.

(12) Acme's mark-ups were not uniform, but fluctuated from time to time. The company set its own mark-up. Acme's prices varied to meet competition.

(13) There is no evidence to indicate any discussion at meetings attended by the Oelbaums to indicate any arrangement or plan to which they consented relating to a combine.

On behalf of Champlain, it was submitted that the company did not begin operations until 1948.

On behalf of Martin Paper, it was submitted that the complete change of ownership and management of the company in 1954 and the discontinuation then of the use of Container Statistics manual completely dissociated the company in its present form from the company as it existed prior to 1954 in respect of the allegations in the Statement.

On behalf of Sherbrooke it was submitted that the company's use of the manual was "for the benefit of the Company in ascertaining prices properly applicable" and "not in the furtherance of the alleged Combination, Combine or Conspiracy".

In the briefs the following submissions were made by the indicated companies on the merger aspects of the case:

- (1) The allegations of merger, trust or monopoly are unfounded. The circumstances on which they purport to be founded are unrelated and totally irrelevant (Hygrade-Hendershot; Canadian International Paper).
- (2) The Director cannot show that C.I.P.'s acquisition of Hygrade has operated, or is likely to operate, to the detriment, or against the interests of the public. The facts are to the contrary.
- (3) The Director cannot show the purchase price of Hygrade was greatly in excess of the property acquired or that the price was calculated to saddle the enterprise with unduly high overhead costs which had to be borne by the public. The facts are to the contrary.
- (4) The acquisition of Canadian Western Box did not contravene the merger provisions of the Combines Investigation Act (Martin Paper).

Submissions in addition to those presented in the briefs were made at the opening of the Commission's hearing on September 19, 1960. These are summarized in the following paragraphs:

- (1) The legality of a merger is not to be judged with reference to whether there was a conspiracy. When a merger is alleged, other considerations are irrelevant. Counsel quoted from the judgments of Williams, C.J. in Regina v. The British Columbia Sugar Refining Company Limited et al (1960),<sup>(1)</sup> and McRuer, C.J. in Regina v. Canadian Breweries Limited (1960)<sup>(2)</sup> to show that the evil which is alleged to come from a merger must be shown to flow from the act of merger itself and not from collateral acts of the accused corporations. Counsel argued that evidence as to collateral agreements such as price fixing and combination is irrelevant to the question of merger (Hearing, pp. 10, 16-29)

---

(1) 32 W.W.R. (N.S.) 577; 129 C.C.C. 7.

(2) 1960 O.R. 601; 33 C.R. 1; 126 C.C.C. 133.

- (2) It was pointed out that the dates of some of the alleged mergers preceded the dates of the alleged conspiracy or combination. In conspiracy cases, acts, in order to be relevant evidence, must be overt acts flowing out of the conspiracy and after its formation in point of time. Evidence of an acquisition in 1945 is not evidence with respect to a conspiracy in 1947. It was argued that in the case of the two Bathurst mergers in 1945 and 1946 these mergers could not be legally tied into the conspiracy case because the mergers concerned preceded the alleged conspiracy. Therefore these mergers would have to be separated from the conspiracy issue (Hearing, pp. 11-12, 30-32, 43-45, 48, 71-72 and 110).
- (3) A further argument for the separation of the conspiracy and merger aspects of the case was said to be that conspiracy and merger are tried by different rules of evidence (Hearing p. 44).
- (4) Evidence of mergers might be properly received in a conspiracy case if it were established or alleged that the mergers were the result of some common design or agreement, but as that is not the case here the evidence of mergers is quite irrelevant in dealing with the conspiracy case (Hearing pp. 48-49).
- (5) The Statement of Evidence goes far beyond what was ever contemplated by the statute. It is not confined to evidence but contains arguments, opinions by others and conclusions as well (Hearing, pp. 82-90).
- (6) The allegations relate to the period 1947-59, but the Statement relies on what happened prior to 1947. The Director is not entitled to rely on evidence prior to 1947 in dealing with matters after 1947 (Hearing, pp. 94-96).

At the opening of the Vancouver hearing, counsel for MacMillan, Bloedel and Powell River Limited and MacMillan & Bloedel Limited filed a statement of the position taken by those companies with respect to the purchase by MacMillan & Bloedel of half the shares of Martin Paper. The statement submitted that each merger must be considered on the evidence relating to that particular merger. It denied that the amount paid for shares of Martin Paper was excessive and that it affected overhead or other costs of Martin Paper. The companies denied that they recognized Crown Zellerbach as the price leader or that there was any agreement to that effect. They stated that the cost of board to Martin Paper had not been inflated, but reduced. They submitted that the acquisition of shares by MacMillan & Bloedel in no way affected the public interest and did not constitute a merger within the meaning of the Combines Investigation Act. They submitted that there was no evidence to support any allegation of wrong-doing in respect of the said acquisition, nor to justify the conclusions of the Director against those companies.



5.      The Organization of this Report

The desirability of separate consideration of the combination and merger aspects of this inquiry is observed in the organization of this Report which is divided into three parts:

Part I	-	The Combination Aspect of the Inquiry
Part II	-	The Acquisitions
Part III	-	Recommendations

Part I dealing with the combination aspect also contains considerable information on the structure of the containerboard and shipping container industries, the nature of their products, and the history of the two industries which is indispensable in an understanding of the merger aspect. At the end of Part I there is a summary of the evidence on the combination aspect and an appraisal of its significance.

In Part II the evidence on each alleged merger is presented in a separate chapter together with an appraisal of those economic aspects of the alleged merger which differ from those in the other chapters of this part. A separate chapter at the end of Part II examines the legal significance of the acquisitions and presents an appraisal of the economic significance of the acquisitions as a group and of the features common to them all, together with an examination of the relationship of the acquisitions to the alleged conspiracy or combination.

Part III contains the recommendation of the Commission arising out of the inquiry.

# PART I - THE COMBINATION ASPECT OF THE INQUIRY

## CHAPTER I

### THE CONTAINERBOARD AND SHIPPING CONTAINER INDUSTRIES: PRODUCTS AND MARKET STRUCTURES

#### 1. Nature of Products

##### (a) Description of Containerboard

The Statement of Evidence contains the following description of paperboard:

"14. 'Paperboard' is a generic term which embraces a number of different grades of paper, usually having a thickness of .009 inches or more, which are employed in different end-uses. The principal grades are: Containerboard, used for the manufacture of shipping containers and related products; Boxboard, used for folding and set-up boxes; Building Boards, used in the construction industry; and Wet Machine Boards, having a variety of uses. Containerboard is the only type of paperboard with which this Statement of Evidence is concerned.

15. Containerboard is classified in accordance with its function, the methods of manufacture and the raw material used. Linerboards, corrugating medium and container chip are terms chiefly describing function. Linerboards form the outer and inner faces of shipping containers and are sometimes called liners or facings. Corrugating medium is board which is subsequently fluted (i.e. corrugated) to form the inside of a sandwich known as combined board, the facings being of linerboard. Container chip is a solid board which is enclosed flat within a sandwich of linerboards, the whole constituting solid fibreboard. In forming the sandwiches both in the case of corrugated board and solid fibreboard, the liners are attached to the corrugating medium or container chip by means of adhesives. The distinction arising from the composition of the paper stock used in producing different types results in terms such as jute (a grade made from waste paper principally) and kraft (made from sulphate pulp principally). Finally there is the distinction arising from whether the board is made on a cylinder machine or a fourdrinier machine.



16. In the early history of the industry linerboards were almost entirely jute liners, also known as test liners. Perhaps at the very beginning the waste papers used to make jute liners were reinforced by an admixture of jute, whose long fibres strengthened the paper, but if so this was not of long practice, and soon the jute liners were manufactured from waste papers plus some strong kraft pulp, just as they are today. Jute liners have almost invariably been made on multi-cylinder paper machines, which construct the board by laying down several layers of paper stock one upon the other. Early in the 1920's kraft linerboards in small but increasing volume began to be made on cylinder machines and these were of lighter weight for any given strength than were the jute liners. Thus we have the term cylinder kraft liner. About the middle-20's kraft linerboards began to be made on fourdrinier paper machines, which constructed the board on a solid layer of paper stock. These fourdrinier kraft liners were of even lighter weight for a given strength of board, were made in large volume, and have competed with jute liners ever since on the basis of quality and lighter weight. In the United States they tended to displace jute liners at a faster rate than they have in Canada.

17. Corrugating medium in the beginning was almost entirely made of straw, which held a pre-eminent position for a long time, supplemented by chestnut and other types. It was not until the end of the 20's that kraft corrugating medium began to be produced and thereafter it competed strongly with strawboard. In the last few years semi-chemical corrugating medium has tended to displace them both, especially in the United States."

(Statement of Evidence, Volume I, pp. 18-19)

(b) Description of Paperboard Shipping Containers

Paperboard shipping containers are described in the Statement of Evidence as follows:

"9. Fibreboard, or paperboard shipping containers are protective boxes made of containerboard grades of paperboard in which goods are shipped by common carriers. They are to be distinguished from packages made from boxboard grades of paperboard, known as set-up and folding boxes, which are principally used for packaging a wide variety of items to be sold or used individually. A consignment of many such packages is

normally packed within a shipping container. The main functions of a shipping container are to provide protection against physical damage in shipment, to simplify handling and storing and to protect the contents against weather."

(Statement of Evidence, Vol. I, p. 17)

Paperboard shipping containers have been of two main types, corrugated and solid fibre. "Because of its high rigidity and relatively heavy weight, solid fibreboard was the leading substitute for wood in the early years, and corrugated material did not obtain ready acceptance until a later date. As time went on, however, corrugated boxes virtually displaced solid fibreboard shipping containers." (Statement of Evidence, p. 17). Within the period under review, solid fibreboard shipping containers have declined in relative importance. In 1947 the total value of production of corrugated boxes amounted to \$34,878,602 and of fibreboard boxes \$1,161,796 (Dominion Bureau of Statistics, The Paper Box and Bag Industry, 1948, p. 9). Thus, fibreboard shipping containers accounted for only 3.2 per cent of the combined value of the two types of box. In 1958, however, the total production (in thousand square feet) of corrugated boxes amounted to 6,319,776, as compared with only 37,170 of solid fibreboard boxes (Dominion Bureau of Statistics, General Review of the Paper-Using Industries, 1958, p. 15, Table V). Thus, of the total of the two types of box combined, solid fibreboard accounted for 0.6 per cent.

## 2. Description of Industries

### (a) Containerboard Industry

The tariff protection of the containerboard industry is described in the following extract from the Statement of Evidence:

"19. The containerboard industry has always been a protected industry, producing almost entirely for the home market. The rates of duty, established by item 192 of the customs tariff, have remained unchanged for years, and are as follows:

British Preferential	-	15	per cent
Most-Favoured-Nation	-	25	" "
...under GATT (Jan. 1,			
1948)	-	22 $\frac{1}{2}$	" "
General	-	35	" " " (*)

(Statement of Evidence, Vol. I, p. 19)

---

(\*) On June 24, 1962, by Order in Council, all these rates, except General, were increased 5 per cent.

The following table gives the statistics of Canadian production and imports of containerboard and the proportion of Canadian supply of containerboard represented by imports. The second part of the table shows the relationship between total exports of containerboard and Canadian production as well as the exports by Abitibi only.

Table 1

Containerboard: Value and Volume of Production, 1947-60

	Production <sup>(1)</sup>	Value in \$000		Imports as % of Canadian Supply
		Imports <sup>(2)</sup>	Canadian Supply	
1947	25,248	47	25,295	0.19
1948	31,600	1	31,601	0.03
1949	33,151	40	33,191	0.12
1950	38,955	1	38,956	0.03
1951	45,516	1,461	46,977	3.11
1952	42,832	968	44,800	2.16
1953	46,965	1,211	48,176	2.51
1954	48,102	1,571	49,673	3.16
1955	53,539	2,389	55,928	4.34
1956	66,491	3,314	69,805	4.75
1957	64,099	3,199	67,298	4.75
1958	67,505	3,186	70,691	4.51
1959	70,754 (3)	4,265	75,019	5.69
1960	70,169 (3)	2,845	73,014	3.90

SOURCES:

- (1) Unless otherwise indicated, production figures are from Dominion Bureau of Statistics, The Pulp and Paper Industry. After 1952 the figures are for factory shipments.
- (2) Dominion Bureau of Statistics, Trade of Canada: Imports.
- (3) These figures were compiled by the Commission from returns of information to the Commission. As dollar figures were not available in the case of two firms, estimates of these firms' value of shipments were made, based on the firms' tonnages and on value per ton derived from data from other firms. An estimate was made for 1958 using these same methods. The resultant figure, checked against the D.B.S. shipments figure for 1958, was found to be 1.37 per cent too low. This check also revealed that the D.B.S.'s 1958 figure does not include value of export shipments. Consistency demanded therefore that the value of export shipments be excluded from the 1959 and 1960 figures as well.

Table 1 (continued)

Volume in '000 tons<sup>(4)</sup>

	<u>Production</u>	<u>Exports</u>		<u>Total Exports as % of Canadian Production</u>
		<u>All Mills</u>	<u>Abitibi only</u>	
1947	283.6	22.4	6.0	7.9
1948	320.7	50.7	31.9	15.8
1949	317.1	35.7	27.9	11.3
1950	354.3	32.2	25.1	9.1
1951	372.5	37.9	27.6	10.2
1952	341.9	27.0	24.9	7.9
1953	371.7	25.1	23.7	6.8
1954	360.4	14.2	11.8	3.9
1955	416.7	22.6 (6)	16.8 (5)	5.4
1956	501.9	56.6 (6)	18.8 (5)	11.3
1957	472.6	57.4 (6)	20.9 (5)	12.1
1958	498.9	50.6 (6)	18.5 (5)	10.1
1959	516.5 (6)	58.5 (6)	15.1 (5)	11.3
1960	560.2 (6)	96.7 (6)	22.1 (5)	17.3

(4) Except as indicated, from C.P.P.A. Serials A 18119-29 4 HDT.

(5) Return of Information of Abitibi, January 16, 1961.

(6) C.P.P.A. statistics from Mr. Forget's letter of February 8, 1961.



The production of containerboard has grown considerably in the period 1947-60. Production in 1960 in tonnage terms is almost exactly double that in 1947. Imports in recent years, in absolute terms, have been growing and in 1959 were almost 100 times those in 1947. Canadian supply is equal to the sum of Canadian production and imports and may be regarded as the pool of containerboard from which Canadian consumption is drawn. Despite the considerable growth in imports from the late 1940's to the late 1950's, column 4 shows that imports have never at any time in the period under discussion exceeded 5.69 per cent of Canadian supply, and in fact have exceeded 4 per cent only since 1955. The great leap in the relative importance of imports occurred in 1951 when they represented over 3 per cent of Canadian supply. Prior to that year they were less than 1 per cent of Canadian supply.

The second part of the table indicates that exports have risen very considerably in the post-war period, those in 1960 being more than four times the size of those in 1947. In the early post-war period exports by Abitibi alone comprised the major portion of all exports. The importance of total exports in relation to Canadian production has varied from 3.9 per cent in 1954 to a high of 17.3 per cent in 1960. They receded from 15.8 per cent of Canadian production in 1948 to 3.9 per cent in 1954, since when the level has been higher, with sharp increases in 1956 and 1960. Abitibi's exports have consisted entirely of corrugating medium. The decline in the importance of Abitibi's contribution to the export trade is the reflection of increased participation in the export trade by other firms, as well as some decline in the exports by Abitibi itself from the levels attained in the late 1940's.

In 1939 there were four principal manufacturers of containerboard east of the Rocky Mountains, namely, Bathurst, Brompton, Hinde & Dauch and Gair, and one important supplier in British Columbia, namely, Pacific Mills. The only other supplier on the West Coast was Sidney Roofing & Paper Co., Ltd., which made a few tons from time to time. In 1939 there were several minor producers in Eastern Canada, some of which made containerboard grades intermittently as any boxboard mill is capable of doing. Of these Strathcona Paper Company Limited has continued to make some of these grades in relatively small volumes throughout the period covered by the present investigation. Abitibi has produced corrugating medium since 1947. Although this was principally for export in the early post-war years, in the period 1955-60 domestic shipments by Abitibi have exceeded export shipments in four out of six years and in the other two years have been almost as great. Acme installed equipment for the manufacture of board toward the end of the second World War. In 1950 Dryden Paper Company Limited and Minas Basin Pulp & Paper Company Limited began the manufacture of containerboard. In 1951 Anglo-Canadian Pulp and Paper Mills Limited began to make shipments of containerboard in small volume. C.I.P. acquired a

mill at La Tuque, Quebec, adapted it to the production of kraft board and paper in large volume and began shipments in March, 1956. C.I.P. subsequently has produced containerboard at its mills at Gatineau, Quebec (July, 1959) and Hawkesbury, Ontario (January, 1960). In 1957 MacMillan & Bloedel brought its kraft paper and board mill at Port Alberni, British Columbia, into production.

The following is a complete list of Canadian containerboard mills for which information was submitted to the Commission:

<u>Name of Company</u>	<u>Location</u>
Minas Basin Pulp and Power Company Limited	Hantsport, Nova Scotia
Bathurst Power & Paper Company Limited	Bathurst, New Brunswick
Anglo-Canadian Pulp and Paper Mills Limited	Quebec, P.Q.
Canadian International Paper Company	La Tuque, P.Q., Gatineau, P.Q., Hawkesbury, Ontario
St. Lawrence Corporation Limited	East Angus, P.Q., Red Rock, Ontario
Hinde & Dauch Paper Company of Canada Limited	Toronto, Trenton, Ontario
Continental Can Company of Canada, Limited	Toronto, Ontario, Montreal, P.Q.
Acme Paper Products Company Limited	Toronto, Ontario
Strathcona Paper Company Limited	Strathcona, Ontario
Abitibi Power & Paper Company, Limited	Sturgeon Falls, Ontario
Dryden Paper Company Limited	Dryden, Ontario
Crown Zellerbach Canada Limited	Ocean Falls, British Columbia
MacMillan & Bloedel Limited	Port Alberni, British Columbia
Sidney Roofing & Paper Co. Ltd.	Burnaby, British Columbia



In connection with the above list it should be pointed out that Gair became part of Continental Can Company of Canada, Limited in 1956. Pacific Mills was the name formerly used by Crown Zellerbach Canada Limited, a subsidiary of the United States producer of similar name. In 1952 St. Lawrence purchased all the assets of Brompton, thereafter conducting the business under its own name. (Prior to 1952 St. Lawrence controlled the shares of Brompton.) Dryden was acquired by Anglo-Canadian in 1953. St. Lawrence Corporation Limited became the only major shareholder of Hinde & Dauch on June 1, 1959. Thus if we regard Dryden and Anglo-Canadian as being one business entity and St. Lawrence and Hinde & Dauch as a second business entity, there appear to be nine firms in the containerboard industry in Canada east of the Rockies, while west of the Rockies there are two major producers, Crown Zellerbach and MacMillan & Bloedel, and one minor one, Sidney Roofing. It should be noted further that at the end of 1959 MacMillan & Bloedel amalgamated, and that in 1960 the new company, MacMillan, Bloedel and Powell River Limited acquired Sidney Roofing.

The following table shows the percentages of total shipments by the various Canadian containerboard mills to Canada as a whole for the period 1947-60:

Table 2

Containerboard: Shipments of Individual Companies as Percentages of  
Mills' Total Shipments to Canada as a Whole, 1947-60

Year	Acme	St. Lawrence	Bathurst	H & D	Qair	Abitibi	Anglo- Canadian	Crown Zellerbach	Dryden	Minas Basin	Strathcona	Sidney Roofing	MacMillan & Bloedel	C.I.P.
1947	1.77	27.05	28.33	29.37	7.43	-	-	6.05	-	-	-	-	-	-
1948	1.36	29.95	27.05	27.05	6.67	0.07	-	6.31	-	-	1.54	-	-	-
1949	1.93	30.55	26.43	24.51	7.89	0.56	-	6.44	-	-	1.69	-	-	-
1950	2.30	28.64	25.80	22.35	8.26	1.93	-	6.69	0.84	0.99	2.20	-	-	-
1951	2.36	27.50	26.59	22.05	8.31	2.14	1.00	5.50	1.69	0.91	1.95	-	-	-
1952	2.27	29.47	26.00	21.03	7.93	2.12	0.82	5.50	2.43	1.16	1.27	-	-	-
1953	2.34	26.31	27.30	20.16	7.20	2.61	1.55	6.30	2.99	1.07	2.00	0.17	-	-
1954	2.78	25.80	28.30	17.80	7.72	3.37	0.92	6.29	4.29	1.12	1.61	-	-	-
1955	2.34	27.07	30.60	19.73	6.62	4.30	0.63	4.45	2.56	0.91	0.77	0.02	-	-
1956	2.76	29.25	25.64	19.02	5.65	4.96	0.60	3.90	1.77	1.07	1.01	0.03	-	4.34
1957	2.42	24.39	22.56	20.03	5.92	4.53	0.53	5.35	2.04	1.05	0.70	0.04	1.12	9.32
1958	2.36	22.06	19.56	19.49	5.90	4.60	0.54	5.40	1.85	0.93	0.73	0.28	2.53	13.77
1959	2.15	20.93	20.49	18.04	5.84	4.08	0.40	5.23	1.80	0.98	0.26	0.37	3.50	15.93
1960	2.41	22.33	19.80	16.58	5.51	3.68	0.30	4.65	1.70	0.91	0.16	0.45	4.31	17.21

SOURCE: Returns of Information.

The table shows that while in 1947 there were only six containerboard mills producing containerboard the years following 1947 saw the entry or re-entry into the supplying of the Canadian market of Abitibi and Strathcona in 1948, of Dryden and Minas Basin in 1950 and of Anglo-Canadian in 1951. While Sidney Roofing did make some shipments these were sporadic and entirely inconsequential in size.

The table very clearly indicates the dominance of the three chief mills, St. Lawrence, Bathurst, and Hinde & Dauch. In 1947 these three mills shipped 84.75 per cent of all shipments to all Canada. While other firms began supplying board to the Canadian market in the years following 1947, these three chief mills continued to dominate the market in 1954, supplying 71.90 per cent of the total Canadian shipments. A second feature of the table is the comparative stability of the shares of total shipments held by St. Lawrence, Bathurst and Gair. On the other hand, the fraction of the total held by Hinde & Dauch declined from 29.37 per cent in 1947 to 17.80 per cent in 1954. Crown Zellerbach's share of total shipments showed no major change throughout the period. After re-entering the business of supplying containerboard the share of the total held by Strathcona rose somewhat from 1.54 per cent in 1948 but had dropped back to 1.61 per cent in 1954. The share held by Dryden rose considerably from 1950, when it supplied less than 1 per cent, to 1954, when it supplied 4.29 per cent. Similarly Abitibi experienced a significant increase in its share of total domestic shipments from 1948 to 1954. This increase in domestic shipments by Abitibi was accompanied by a decline in its export shipments: whereas in 1948 Abitibi shipped only 186 tons to domestic customers and 31,593 tons to the export markets, by 1954 domestic and export shipments were approximately equal in size - 11,307 to domestic destinations and 11,830 to the export market.

The period 1954-60 saw certain major changes in the importance of the various board mills. C.I.P. began shipment of board in 1956, grew steadily in importance, and by 1960 had become the third largest shipper to the Canadian market. MacMillan & Bloedel began production in 1957 and almost quadrupled its relative importance by 1960, by which time its share of domestic shipments was almost equal to that of Crown Zellerbach. No substantial change occurred in the relative importance of Acme, Sidney Roofing or Minas Basin and these three remained quite minor producers. All other firms became relatively less important.

A major loss of rank among the suppliers to the Canadian market was experienced by Bathurst, whose decline began in 1956. This was largely the result of C.I.P.'s purchase of Hygrade and its entry into the board field. The loss in Bathurst's share of total domestic shipments from 1955 to 1956 was 4.96 percentage points; in 1956 C.I.P. shipped 4.34 per cent of total

domestic shipments. Hygrade had been, up until 1956, a major customer of Bathurst.

The leading suppliers to the Canadian market by 1960 were St. Lawrence, Bathurst, C.I.P. and Hinde & Dauch in that order. These four are of the same order of magnitude. The next largest firms - Gair, Crown Zellerbach, and MacMillan & Bloedel - are clearly of a second order of magnitude. But the pattern of domination by four large firms, characteristic of the early post-war period, remains: the four largest in 1960 made 75.92 per cent of the total Canadian shipments to the domestic market. But the degree of domination by the four largest firms had fallen considerably, for in 1947 they made 92.18 per cent of total Canadian shipments to the domestic market.

The following table indicates containerboard shipments by Canadian mills broken down by the area of destination:

Table 3

Containerboard Shipments to Four Regions as  
Percentages of Total Shipments to All Canada, 1947-60

<u>Year</u>	<u>British Columbia</u>	<u>Prairies</u>	<u>Ontario and Quebec</u>	<u>Maritimes</u>
1947	6.05	6.61	84.16	3.18
1948	6.17	7.09	83.36	3.38
1949	6.04	7.11	83.94	2.91
1950	6.02	6.76	84.14	3.08
1951	4.42	7.58	84.98	3.02
1952	4.75	8.18	83.61	3.46
1953	5.83	7.78	83.16	3.23
1954	5.69	8.81	81.97	3.50
1955	4.72	7.61	84.31	3.36
1956	3.99	7.39	85.18	3.44
1957	6.16	7.57	82.83	3.44
1958	7.31	7.53	81.87	3.29
1959	7.04	7.91	81.75	3.30
1960	7.72	7.42	81.61	3.25

Source: Returns of Information

This table shows that from 1947 to 1954 inclusive Ontario and Quebec received over 80 per cent of the total shipments by Canadian mills, although the percentage of the total declined slightly throughout the period. The shares of total shipments held by British Columbia and the Maritimes showed little change. On the other hand, shipments to the Prairie Provinces rose from 6.61 per cent to 8.81 per cent during this period.

The period 1954-60 saw one minor change in the relative importance of a market area. British Columbia's share of total containerboard shipments rose from 5.69 to 7.72 per cent. The other areas experienced slight declines. Ontario and Quebec remain by far the major market for board.

Although the foregoing statistics indicate the importance of containerboard shipments to various regions of Canada and the proportion of total Canadian shipments made by the various containerboard mills, a much more significant thing from the point of view of the competitiveness of an industry is a breakdown of market shares by regions.

The following table indicates the percentages of total shipments of containerboard to the Ontario and Quebec markets made by the respective producers:



Containerboard: Mills' Shares of Ontario and Quebec Market, 1947-60  
(per cent)

Year	Acme	St. Lawrence	Bathurst	H & D	Gair	Abitibi	Anglo- Canadian	Crown Zellerbach	Dryden	Minas Basin	Strathcona	Sidney Roofing	C.I.P.
1947	2.10	29.78	28.84	30.48	8.80	-	-	-	-	-	-	-	-
1948	1.63	31.46	27.95	29.06	7.96	0.09	-	-	-	-	1.85	-	-
1949	2.30	30.07	27.53	28.02	9.40	0.67	-	-	-	-	2.01	-	-
1950	2.73	28.72	27.51	26.48	9.82	2.30	-	-	0.04	0.03	2.37	-	-
1951	2.78	27.11	28.62	25.95	9.76	2.45	1.17	-	-	-	2.17	-	-
1952	2.72	29.42	28.49	25.15	9.46	2.53	0.90	-	-	-	1.33	-	-
1953	2.81	26.83	30.57	24.24	8.58	3.01	1.78	-	0.02	-	2.16	-	-
1954	3.39	26.95	32.06	21.48	9.37	3.99	1.08	-	-	-	1.68	-	-
1955	2.78	27.24	33.57	22.64	7.82	4.32	0.72	-	-	-	0.91	-	-
1956	3.24	29.35	27.44	21.58	6.64	4.85	0.70	-	0.01	-	1.18	-	5.01
1957	2.91	24.77	24.56	23.32	7.15	4.72	0.64	-	0.05	-	0.85	-	11.03
1958	2.89	23.12	21.22	22.62	7.23	4.76	0.65	-	0.15	-	0.89	-	16.47
1959	2.64	21.78	22.02	21.02	7.16	4.87	0.47	-	0.17	-	0.32	-	19.52
1960	2.98	23.48	20.66	19.51	6.83	4.56	0.36	-	0.33	-	0.19	-	21.09

SOURCE: Returns of Information

This table again shows that from 1948 onward new firms entered the supplying of containerboard to the Central Canadian market. It also makes quite clear that the Central Canadian market was dominated by St. Lawrence, Bathurst, Hinde & Dauch and Gair. In 1947 these four firms supplied 97.90 per cent of the shipments of containerboard to this market, and by 1954 they were still supplying 89.86 per cent despite the presence of four other firms.

In the period 1954-60, the major change in the market in the Central Provinces was the entry into the board industry of C.I.P. and its steady increase in importance. In 1960 it was second only to St. Lawrence as a supplier to Ontario and Quebec. Bathurst and Hinde & Dauch were respectively the third and fourth largest suppliers. All four firms were of about the same size, the next largest, Gair and Abitibi clearly being of a second and much lower order of magnitude. The market in 1960, as in 1947, was dominated by four large firms, the main change being that C.I.P. had ousted Gair from the leading group of four. Although increases in relative importance were made by Acme, Abitibi and Dryden, these remained minor producers. Bathurst dropped from the position of leading supplier in 1954 to third in 1960. The four largest firms held 84.74 per cent of the market in 1960 as compared with 97.90 in 1947.<sup>(1)</sup>

The percentage shares given above may suggest more competition in this market than actually exists. As will be shown in a later part of this chapter, considerable fractions of the production of all the large board firms go to their own converting operations. The Ontario and Quebec "market" is thus to a significant extent made up of a number of captive markets in which competition is largely absent.

The following table indicates the percentages of total containerboard shipments to the Prairie market made by the individual firms:

---

(1) It should be remembered that in 1959 St. Lawrence acquired control of Hinde & Dauch. The two companies may therefore be regarded as one entity.

Table 5

Containerboard: Mills' Shares of Prairie Market, 1947-60  
(per cent)

<u>Year</u>	<u>St. Lawrence</u>	<u>Bathurst</u>	<u>H &amp; D</u>	<u>Gair</u>	<u>Abitibi</u>	<u>Anglo-Canadian</u>	<u>Zellerbach</u>	<u>Crown</u>	<u>Dryden</u>	<u>Minas Basin</u>	<u>Strathcona</u>	<u>Sidney Roofing</u>	<u>MacMillan &amp; Bloedel</u>	<u>C.I.P.</u>
1947	29.77	37.38	32.55	0.30	-	-	-	-	-	-	-	-	-	-
1948	51.77	25.91	19.85	0.43	-	-	2.04	-	-	-	-	-	-	-
1949	74.03	20.38	-	-	-	-	5.59	-	-	-	-	-	-	-
1950	65.94	12.24	-	-	-	-	9.80	12.02	-	-	-	-	-	-
1951	58.24	4.39	-	-	0.78	-	14.27	22.31	-	-	-	-	-	-
1952	58.82	2.18	-	0.04	0.08	-	9.21	29.64	-	-	-	0.04	-	-
1953	50.57	1.68	-	0.07	1.32	-	6.01	38.15	-	-	-	2.20	-	-
1954	41.13	-	2.13	0.41	1.12	-	6.47	48.75	-	-	-	-	-	-
1955	52.52	-	8.35	-	5.00	-	0.42	33.71	-	-	-	-	-	-
1956	57.10	-	8.58	-	8.87	-	1.68	23.77	-	-	-	-	-	-
1957	51.20	-	9.54	-	8.06	-	3.00	26.39	-	-	-	-	1.81	-
1958	42.06	-	13.32	-	9.42	-	1.86	23.02	-	-	-	1.37	8.95	-
1959	39.97	-	11.43	-	1.27	-	1.92	21.10	-	-	-	1.46	22.85	-
1960	45.48	-	10.90	-	-	-	1.59	19.56	-	-	-	1.63	20.39	0.45

SOURCE: Returns of Information.

A feature of the Prairie market has been the dominance to a very large extent of not more than three firms and at times of only two. In 1947 and 1948 St. Lawrence, Bathurst and Hinde & Dauch together supplied 99.70 per cent and 97.53 per cent respectively of the total shipments to the area, although in 1948 St. Lawrence alone held over 50 per cent of the total market. In 1949 Hinde & Dauch and Gair withdrew completely from the Prairie market and, although Crown Zellerbach had begun in 1948 to ship small quantities into the area, yet St. Lawrence and Bathurst between them supplied 94.41 per cent of the market and St. Lawrence alone 74.03 per cent of it. In 1950 Dryden entered the market and Crown Zellerbach's relative importance grew considerably. In this year St. Lawrence and Bathurst supplied 78.18 per cent of the total and Crown Zellerbach and Dryden together 21.82 per cent. By 1951 Bathurst had become a quite minor supplier to this market, which thereafter to the end of 1954 was dominated by St. Lawrence and Dryden. In 1951 St. Lawrence and Dryden supplied 80.55 per cent of the total and in 1954 89.88 per cent of the total. St. Lawrence, however, experienced a relative decline, its share falling from 58.24 per cent to 41.13 per cent in 1954, whereas Dryden's share rose from 22.31 per cent in 1951 to 48.75 per cent in 1954.

In the years 1954-60 the pattern of concentration of market power in the hands of two or three suppliers was ostensibly weakened. In 1954 and subsequent years Hinde & Dauch resumed and expanded its shipments to the Prairies. This undoubtedly was a consequence of the latter's acquisition of Hilton through acquisition of the latter's parent, Corrugated Paper Box. The outstanding change was, of course, the entry of MacMillan & Bloedel into the Prairie market in 1957 and its steady growth in importance thereafter. There is no doubt that the great increase from 1958 to 1959 in MacMillan & Bloedel's share of the market was associated with its acquisition of a 50 per cent interest in Martin Paper, one of the two major shipping container producers on the Prairies, in March, 1959. Again, the acquisition of Hinde & Dauch by St. Lawrence in June, 1959 means that these two firms, shown as separate suppliers in the table, are in reality one business enterprise. In 1960 this enterprise supplied 56.38 per cent of the total shipments to the Prairies. Finally, it should be recalled that in 1960 MacMillan & Bloedel acquired Sidney Roofing. Abitibi ceased to ship into this area in 1960. Thus at the end of the period there were only five independent enterprises, as against an ostensible seven, supplying this market. Of this number three (St. Lawrence-Hinde & Dauch, Dryden, and MacMillan & Bloedel-Sidney Roofing) accounted for 97.96 per cent of the total. Full consideration thus reveals that the Prairie market is still completely dominated by three suppliers.

The following table indicates the shipments of the various producers to the Maritime market:

Table 6

Containerboard: Mills' Shares of Maritime Market, 1947-60  
(per cent)

<u>Year</u>	<u>St. Lawrence</u>	<u>Bathurst</u>	<u>H &amp; D</u>	<u>Gair</u>	<u>Abitibi</u>	<u>Anglo- Canadian</u>	<u>Crown Zellerbach</u>	<u>Dryden</u>	<u>Minas Basin</u>	<u>Strathcona</u>	<u>Sidney Roofing</u>	<u>C.I.P.</u>
1947	0.90	49.87	49.23	-	-	-	-	-	-	-	-	-
1948	1.58	56.48	41.94	-	-	-	-	-	-	-	-	-
1949	1.59	64.39	34.02	-	-	-	-	-	-	-	-	-
1950	0.60	59.36	2.19	-	-	-	-	-	31.27	6.57	-	-
1951	1.48	64.00	-	0.79	-	0.30	-	-	30.18	3.25	-	-
1952	1.90	57.67	-	0.45	-	2.08	-	-	33.48	4.42	-	-
1953	2.12	54.28	-	1.77	-	2.03	-	-	33.27	6.53	-	-
1954	2.39	57.80	-	0.17	-	0.94	-	-	32.14	6.56	-	-
1955	3.35	68.41	-	0.61	-	0.66	-	-	26.97	-	-	-
1956	1.07	65.99	-	-	-	-	-	-	30.96	-	-	1.98
1957	0.16	63.75	-	-	0.22	-	-	-	30.45	-	-	5.32
1958	0.35	61.98	-	-	-	0.14	-	-	28.28	-	-	9.25
1959	0.21	66.30	-	-	-	0.60	-	-	28.84	-	-	4.05
1960	-	67.37	-	-	-	0.61	-	-	28.04	-	-	3.98

SOURCE: Returns of Information.



Here again we find the market dominated by two firms only, although not the same two firms throughout the period. In 1947, for instance, Bathurst and Hinde & Dauch together supplied 99.10 per cent of the total shipments into this area, and these shipments were split almost equally between them. In 1948 and 1949 the combined percentages of the two were 98.42 and 98.41. In 1950 the situation altered in a major way with Hinde & Dauch becoming an insignificant supplier to this market and with Minas Basin entering as a major supplier. The two firms, Bathurst and Minas Basin, together supplied 90.63 per cent of the total market in this year, and from then until 1954 their combined share was never less than 87.55 per cent. In 1951, their combined share was 94.18 per cent. Bathurst alone, supplying 59.36 per cent in 1950, was still supplying 57.80 per cent in 1954 and Minas Basin throughout the period 1950-54 never supplied less than 30.18 per cent and in 1952 supplied 33.48 per cent. Strathcona re-entered the industry in 1950 and thereafter remained a minor supplier to the area.

In the period 1954-60 only one new supplier to this market appeared, but it was only a minor supplier by 1960. The market was supplied almost wholly by Bathurst and Minas Basin; in 1955 they accounted for 95.38 per cent and in 1960 for 95.41 per cent of all shipments to this area. In this case the appearance of Bathurst and Minas Basin as being two independent suppliers is questionable as regards 1959 and 1960, for in 1958 Bathurst acquired a minority interest in Maritime and a majority interest was acquired by Minas Basin. Thus these two board suppliers have common interests in a subsidiary which is one of the two firms which dominate shipping container production in the area. The other shipping container firm, Wilson, was acquired by Bathurst in June, 1960. Thus virtually all board shipments to the Maritimes in the latter half of 1960 were being made to subsidiaries of two board firms.

With respect to the British Columbia market, Pacific Mills (or Crown Zellerbach) supplied 100 per cent of the Canadian shipments throughout the period 1947-54. No shipments were made into the British Columbia market by Sidney Roofing. The latter's shipments were made entirely to Prairie points.

The shares of various producers in the British Columbia market are shown in the table below:

Table 7

Containerboard: Mills' Shares of British Columbia  
Market, 1947-60

(per cent)

<u>Year</u>	<u>Crown Zellerbach</u>	<u>Sidney Roofing</u>	<u>Abitibi</u>	<u>MacMillan &amp; Bloedel</u>
1947	100.00	-	-	-
1948	100.00	-	-	-
1949	100.00	-	-	-
1950	100.00	-	-	-
1951	100.00	-	-	-
1952	100.00	-	-	-
1953	100.00	-	-	-
1954	100.00	-	-	-
1955	93.64	0.42	5.94	-
1956	94.63	0.85	4.52	-
1957	83.29	0.67	-	16.04
1958	72.08	2.41	-	25.51
1959	72.24	3.58	-	24.18
1960	59.23	4.02	-	36.75

Source: Returns of Information.

Crown Zellerbach's monopoly of the British Columbia market was slightly weakened in 1955 and 1956, but substantially broken only in 1957 when MacMillan & Bloedel began producing. The latter's market share rose from 16.04 per cent in 1957 to 36.75 per cent in 1960. Sidney Roofing began shipping to the British Columbia market in 1955, but although its shipments expanded they remained of very minor importance at the end of the period. Bearing in mind that Sidney Roofing was acquired by MacMillan & Bloedel in 1960, one sees that two business enterprises split the British Columbia market in the proportion 41 to 59. Moreover, as practically all (99.85 per cent in 1960) of MacMillan & Bloedel's shipments were to Martin Paper, its subsidiary, and the most (90.37 per cent in 1960) of Crown Zellerbach's were to its subsidiary, Canadian Boxes, there is not the degree of competition present which might be suggested by the percentage figures. What is shown here is largely two non-competing captive markets, each supplied by one producer.

(b) Container Industry

The container industry is described in the Statement of Evidence in the following terms:

"23. Manufacturers of shipping containers are frequently referred to as converters, because their job is the

conversion of rolls of paper into shipping containers. The machinery, operations, manufacturing specifications and related matters are described in some detail by Werner.<sup>[1]</sup> Rolls of paperboard stock, liners and corrugating medium, are assembled at the factory and stored against their use in manufacturing. The liners and corrugating medium are combined together on corrugators, which are the most expensive and complicated machines used in the process. Their function is to flute the corrugating medium and attach it to the liners, by means of adhesive, to make combined board. This combined board may be single-faced (one liner only), double-faced (two liners with corrugating medium between) or double-wall (one sheet of single-faced combined with one sheet of double-faced). The corrugating medium may be fluted with more or less undulations per lineal foot, such undulations being of different heights, resulting in 'A', 'B' or 'C' flutes. In the case of a double-wall combined board two of these flutes may be used. The combined board varies in thickness and in certain capabilities according to which of these flutes is used. Usually two single-facer machines and a double-backer are used to produce double-wall boxes, and some Canadian plants have not been equipped to do this operation. Similarly some Canadian plants have not been able to supply all three flutes. The corrugating machines have also varied widely according to their age, size, speed, ability to perform secondary operations such as slitting and scoring, and ability to cut-off either one or more orders at once."

(Statement of Evidence, Vol. I, pp. 20-21)

The following extract from the Statement of Evidence makes it clear that the shipping container is a tailor-made product and that the machinery on which it is made is far from uniform throughout the various plants in Canada.

"24. Corrugated shipping containers are made to the customer's requirements of size, style, weight to be carried, and so forth. These requirements, subject to the minimum specifications set by the Canadian Freight Association, determine the weight of the liners to be used in construction of the combined board and whether single or double-wall should be used. The customer may also specify what type of flute he desires. The decision as to the style of box, whether a standard slotted container or a Bliss, Telescope or other style, determines the shape and area of the blank of combined board required for each container. Once this is settled the job to be done is one of positioning and making the creases (or scores as they are sometimes called) and the slots which will permit the blank to be folded

---

[1] A.W. Werner: The Manufacture of Fibre Boxes, Board Products Publishing Co., Chicago, 1954.

into its final form; to print the blank as required; and to close the finished container at one edge, either by stitching or by use of a variety of different tapes. The carton, if it is a slotted container, is now in the form of a flattened rectangular tube, and the final operation is to bundle these together with string or wire or on pallets. To do these various jobs there is a wide assortment of specialized machinery on the market, doing each operation separately or in combination with others. A range of partition machinery is used in the manufacture and assembly of partitions, and all sorts of conveying systems are available in connection with the flow of materials to the corrugator and from one operation to another. Some operations may be done either by hand or by machine. During the period covered by this investigation, the factories in Canada engaged in this business have been of all ages and designs, most have from time to time engaged in extensive modernization programmes and some have not. But certainly they have never been designed and equipped on any standard system (see lists of their equipment in Official Container Directory, May 1956, published by Board Products Publishing Co., Chicago.).

25. Because of the many variables which enter into the shipping container manufacturing process, it is obvious that the product is not a standard product which can normally be made and stocked against customers' future orders. As a custom-made product, it is produced after the customers' orders have been received. In consequence it has generally been argued that it is not possible to issue published lists of prices, because the price for each carton ordered must be built up to take into account the varying amounts of material and processing required and the quantity ordered. In the United States, however, National Container Corporation does issue public price lists from which customers can calculate their own prices."

(Statement of Evidence, Vol. I, p. 21)

With regard to tariff protection in the shipping container industry, the Statement of Evidence has the following to say:

"27. The shipping container industry has for many years received the following tariff protection under item 199b of the Customs Tariff:

British Preferential, per pound -	4/5 cent
Most-Favoured-Nation, " "	- 4/5 cent
General, " "	- 1½ cents



Since June 1, 1950, there has been the additional provision that in no case shall the rate of duty under the Most-Favoured-Nation Tariff be less than 20 per cent and under the General Tariff less than 35 per cent. In view of the level of prices these ad valorem rates have been the effective ones. . . ." (\*)

(Statement of Evidence, Vol. I, p. 22)

Exports have been a negligible proportion of the industry's output.

The relationship between Canadian production of shipping containers and imports of them is shown in the following table:

Table 8

Corrugated and Solid Fibreboard Shipping Containers, 1947-60

	Production (\$000) <sup>(1)</sup>			Imports (\$000) <sup>(3)</sup>	Canadian Imports as % of Supply	Imports as % of Canadian Supply
	Corrugated	Solid Fibre	Total	Total		
1947	34,878	1,162	36,040	660	36,700	1.83
1948	39,190	1,054	40,244	507	40,751	1.24
1949	46,055	1,217	47,272	412	47,684	0.86
1950	55,271	1,685	56,956	578	57,534	1.00
1951	67,271	2,071	69,342	1,425	70,767	0.20
1952	64,008	1,641	65,649	1,296	66,945	0.19
1953	76,601	1,413	78,014	1,522	79,536	0.19
1954	79,345	1,985	81,330	1,142	82,472	0.14
1955	87,930	2,537	90,467	1,602	92,069	0.17
1956	98,670	2,161	100,831	1,449	102,280	1.42
1957	104,222	1,626	105,848	1,742	107,590	1.62
1958	109,626	838	110,464	1,440	111,904	1.29
1959	123,899	585 <sup>(2)</sup>	124,484	938	125,422	0.75
1960	125,268 <sup>(2)</sup>	573 <sup>(2)</sup>	125,841	986	126,827	0.78

(1) After 1952 the figures are for factory shipments. Except for the years otherwise designated by footnotes, production figures are from Dominion Bureau of Statistics, Paper Box & Bag Industry or General Review of the Paper-Using Industries.

(2) These figures were compiled from returns of information to the Commission. Because in some cases the firms were not able to separate their shipments of corrugated sheets and rolls from that of corrugated containers, there is some overstatement of shipments of the latter.

(3) Dominion Bureau of Statistics, Trade of Canada Imports. Figures include all shipping containers, wholly or partially manufactured from fibreboard or paperboard.

(\*) On June 24, 1962, by Order in Council, all these rates, except General, were increased 5 per cent.



The foregoing table indicates that imports had never in the period 1947-58 inclusive formed more than 1.83 per cent of Canadian supply (Canadian supply being defined as Canadian production plus imports). Indeed, during the years 1951-55 imports in relationship to Canadian supply never rose above one-fifth of one per cent. Although the relative importance of imports in the Canadian supply has been higher in the years 1956, 1957 and 1958, imports still constitute a very small part of the total Canadian supply.

In 1947 shipping container plants were located as follows:

Maritime Provinces:

Maritime	-	Halifax
Wilson	-	Fairville, (Saint John)
		N. B.

Quebec and Ontario:

Canadian Wirebound	-	Toronto and Montreal
Corrugated Paper Box	-	Toronto
Gair	-	Toronto, Hamilton, London and Windsor
Hinde & Dauch	-	Toronto and Montreal
G. W. Hendershot	-	Hamilton
Hygrade	-	London
Kraft Containers	-	Hamilton
Martin-Hewitt	-	Peterborough
O. & S. Corrugated	-	Toronto
Shipping Containers	-	Montreal
Standard	-	Montreal
Superior	-	Kitchener

Prairie Provinces:

Hilton	-	Winnipeg
Martin Paper	-	Winnipeg

British Columbia:

Canadian Boxes	-	Vancouver
Pacific Mills	-	Vancouver

It should be noted that the Windsor plant of Gair was destroyed by fire in 1947 and was not replaced.

Since 1947 many new shipping container plants have been built, existing facilities have been expanded and modernized, and some old plants have been abandoned after the construction of new ones. The following plants were in existence in early 1961:

<u>Name of Company</u>	<u>Location</u>
Acme	Toronto
Bathurst Containers Limited (formerly Canadian Wirebound)	Toronto, Montreal
Bathurst Containers Limited (formerly Norwood)	St. Boniface, Manitoba
Bathurst Containers Limited	Whitby, Ontario
Bathurst Containers Limited (formerly Kraft Containers)	Hamilton
Bathurst Containers Limited (formerly Shipping Containers)	St. Laurent (Montreal)
Champlain	Quebec, P.Q.
Continental Can	Toronto, London, Montreal
Crown Zellerbach (formerly Canadian Boxes)	Richmond, British Columbia; Kelowna, British Columbia
Dominion Containers	Montreal
Hendershot	Burlington, Ontario
Hinde & Dauch	Toronto; Montreal; Chatham; Etobicoke Twp. Ontario; St. Mary's, Ontario
Hinde & Dauch (formerly Hilton)	Winnipeg, Calgary
Hinde & Dauch (formerly Martin-Hewitt)	Peterborough
Hygrade	London, Ontario; Etobicoke Twp., Ontario; Pointe aux Trembles (Montreal); St. John's, Newfoundland
Maritime	Halifax, Nova Scotia
Martin Paper	Winnipeg, Calgary, Edmonton, Regina, New Westminster

<u>Name of Company</u>	<u>Location</u>
Pembroke Shook Mills	Pembroke, Ontario
Sherbrooke	La Salle (Montreal)
Superior	Waterloo, Ontario
Wilson	Lancaster, N. B.

With respect to the foregoing list it should be noted that a number of what were formerly independent companies have been acquired by other companies. For example, Hinde & Dauch has acquired Corrugated Paper Box, Hilton and Martin-Hewitt. Again, Bathurst Containers is the operating company for all shipping container activities of the Bathurst group, and controls plants formerly belonging to Shipping Containers, Kraft Containers, Canadian Wirebound, Wilson and Norwood. Bathurst also has a partial interest in Maritime. Again, both Hygrade and Hendershot have been acquired by C.I.P. Financial control of Champlain was acquired by Dominion Containers. The case of Maritime may be considered somewhat ambiguous. Leaving it aside one can say that there are eleven business enterprises in the shipping container industry in Canada which may be considered to be quite independent of each other.<sup>(1)</sup> It should be noted that independent in the sense used here does not necessarily mean independent of containerboard mills, but only independent of other shipping container enterprises.

Shipments of corrugated and solid fibre shipping containers and corrugated sheets and rolls by firms for the years 1947-54 are shown on Table 9A. Similar figures for the years 1954-60 are shown on Table 9B. These tables show shipments by the various firms grouped by districts, that is, shipments by firms in the Maritimes, shipments by firms in the Central Provinces, shipments by firms in the Prairie Provinces, and shipments by firms in British Columbia. Note that these tables do not indicate the destination of the shipments. There is no information to indicate what percentage of the total shipments by Maritime district firms, for instance, went to the Maritime Provinces, and what percentage went to other areas of Canada. Similarly, the figures of shipments by firms in Ontario and Quebec do not indicate whether the

---

(1) The eleven independent enterprises are: Continental Can; Hinde & Dauch; Martin Paper; Acme; Hygrade and Hendershot; Crown Zellerbach; Dominion Containers and Champlain; Pembroke Shook Mills; Sherbrooke; Superior; Bathurst. Another independent enterprise, Dominion Corrugated, made corrugated sheets and rolls but not shipping containers.

shipments went entirely to Ontario and Quebec destinations or whether a percentage of the total shipments went to the Maritime Provinces or to Western Canada. Thus, the total figure for each district fails to indicate the total sales of boxes which were made in that district.

Table 9-A  
Annual Shipments of Shipping Containers, Corrugated  
Sheets and Rolls, by Region of Origin, 1948-1954

	1 9 4 8			1 9 4 9			1 9 5 0			1 9 5 1			1 9 5 2			1 9 5 3			1 9 5 4			Cumulative Total	
	\$000	%		\$000	%		\$000	%		\$000	%		\$000	%		\$000	%		\$000	%		\$000	%
Acme	520	1.62		868	2.30		1,398	3.05		1,708	3.03		1,551	2.79		1,906	2.94		2,307	3.46		10,258	2.85
Bathurst Group - Total (7)	3,215	10.03		3,856	10.21		4,516	9.83		5,705	10.13		5,213	9.37		5,788	8.94		5,687	8.52		33,980	9.46
- Canadian Wirebound	3,411	10.64		3,879	10.27		5,011	10.91		6,122	10.87		6,363	11.44		6,709	10.37		7,289	10.92		38,784	10.80
- Kraft Containers (2)	3,556	11.09		4,077	10.79		4,781	10.41		6,318	11.21		6,749	12.14		7,048	10.89		7,322	10.97		39,851	11.09
- Shipping Containers (3)																							
Hinde & Dauch Group - Total (8)	7,705	24.03		9,376	24.81		11,879	25.87		14,269	25.32		14,256	25.64		16,136	24.93		15,303	22.93		88,924	24.76
- Hinde & Dauch	1,736	5.41		2,113	5.59		2,204	4.80		1,893	3.36		2,099	3.78		2,569	3.97		2,422	3.63		15,036	4.19
- Corrugated Paper Box (4)	601	1.87		613	1.62		782	1.70		1,033	1.83		780	1.40		901	1.39		1,076	1.61		5,786	1.61
- Martin-Hewitt (5)	4,295	13.39		4,910	12.99		5,958	12.97		7,446	13.22		7,025	12.63		8,120	12.55		8,353	12.51		46,107	12.84
Gair	2,953	9.21		3,357	8.88		3,792	8.26		5,303	9.41		5,005	9.00		6,580	10.17		6,844	10.25		33,834	9.42
Hygrade (12)	823	2.57		1,131	2.99		1,439	3.13		1,693	3.00		1,484	2.67		1,704	2.63		2,009	3.01		10,283	2.86
Hendershot	815	2.54		895	2.37		1,039	2.26		1,078	1.91		1,194	2.15		1,242	1.92		1,359	2.04		7,622	2.12
Superior																590	.91		1,122	1.68		1,712	.48
Sherbrooke																							
Dominion Containers (including Champlain) (6)	2,304	7.18		2,535	6.71		2,902	6.32		3,498	6.21		3,670	6.60		5,182	8.01		5,355	8.02		25,446	7.08
Dominion Corrugated	135	.42		176	.47		224	.49		279	.50		219	.39		245	.38		304	.45		1,582	.44
TOTAL, Ontario and Quebec	32,069	100.00		37,786	100.00		45,925	100.00		56,345	100.00		55,608	100.00		64,720	100.00		66,752	100.00		359,205	100.00
Hilton (11)	1,268	35.39		1,484	35.38		1,625	35.79		1,941	32.39		2,071	31.69		2,238	32.00		2,633	35.99		13,260	33.87
Martin Paper (10)	2,315	64.61		2,711	64.62		2,915	64.21		4,051	67.61		4,464	68.31		4,755	68.00		4,882	64.01		25,893	66.13
TOTAL, Prairies	3,583	100.00		4,195	100.00		4,540	100.00		5,992	100.00		6,535	100.00		6,993	100.00		7,315	100.00		39,153	100.00



Table 9-A (continued)

	1 9 4 8	1 9 4 9	1 9 5 0	1 9 5 1	1 9 5 2	1 9 5 3	1 9 5 4	Cumulative
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	Total
	%	%	%	%	%	%	%	%
Canadian Boxes (9)								
TOTAL, British Columbia	2,362 100.00	2,886 100.00	3,319 100.00	4,128 100.00	3,005 100.00	3,677 100.00	4,268 100.00	22,645 100.00
Maritime	727 53.53	806 50.57	944 48.34	1,027 43.54	1,334 50.45	1,210 50.76	1,527 51.64	7,675 49.69
Wilson	631 46.47	788 49.43	1,009 51.66	1,332 56.46	1,310 49.55	1,271 49.24	1,430 48.36	7,771 50.31
TOTAL, Maritimes	1,358 100.00	1,594 100.00	1,953 100.00	2,359 100.00	2,644 100.00	2,581 100.00	2,957 100.00	15,446 100.00
TOTAL, C A N A D A	39,372	46,461	55,737	68,824	67,792	77,971	81,292	437,449

- (1) Acquired by Bathurst in 1954.
- (2) Acquired by Bathurst in 1946.
- (3) Acquired by Bathurst in 1945.
- (4) Acquired by Hinde & Dauch in 1954.
- (5) Acquired by Hinde & Dauch in 1954.
- (6) Certainly in 1949 and 1953. As to the other years, there is a conflict of evidence.
- (7) Kraft Containers plus Shipping Containers only. The principle of this table is to include the production of an acquired subsidiary in a total for a parent company for the first time in the first year following the year of acquisition.
- (8) Hinde & Dauch only, following the principle of footnote 7.
- (9) Acquired by Crown Zellerbach in 1945.
- (10) Acquired by Powell River in 1954.
- (11) Subsidiary of Corrugated Paper Box which was acquired by Hinde & Dauch in 1954.
- (12) Acquired by Canadian International Paper in 1954.

SOURCES: Figures of Container Statistics Limited, Dominion Corrugated, Hygrade, Shipping Containers, Sherbrooke and Canadian Boxes.

Table 9-B

Annual Shipments of Shipping Containers, Corrugated  
Sheets and Rolls, by Region of Origin, 1955-1960

	1 9 5 5		1 9 5 6		1 9 5 7		1 9 5 8		1 9 5 9		1 9 6 0		Cumulative	
	\$000	%	\$000	%	\$000	%	\$000	%	\$000	%	\$000	%	\$000	%
Acme Paper Products														
Bathurst Group - Total	2,966	3.92	3,576	4.21	3,810	4.32	4,296	4.72	4,870	4.87	5,053	5.02	24,571	4.54
Bathurst Power & Paper (Whitby 1956)	21,736	28.73	23,163	27.25	22,615	25.62	22,862	25.13	24,834	24.83	24,447	24.28	139,657	25.83
Bethurst Containers Ltd.	-	-	1,440	-	3,017	-	3,580	-	4,849	-	4,780	-		
- Canadian Wirebound - Toronto	3,641	-	3,674	-	2,585	-	2,446	-	2,204	-	2,665	-		
- Montreal	2,971	-	2,727	-	2,034	-	2,039	-	2,171	-	2,063	-		
- Shipping Containers - St. Laurent	6,770	-	6,929	-	7,071	-	7,265	-	7,845	-	7,464	-		
- Kraft Containers Ltd. - Hamilton	8,354	-	8,393	-	7,908	-	7,532	-	7,765	-	7,475	-		
Hinde & Dauch Group - Total (2)	19,520	25.80	21,266	25.02	21,906	24.82	21,370	23.49	22,128	22.13	22,346	22.20	128,536	23.78
Montreal	7,092	-	6,931	-	7,112	-	6,320	-	7,020	-	6,936	-		
Chatham	2,687	-	2,961	-	2,979	-	2,401	-	447	-	-	-		
Etobicoke Twp. (formerly Corrugated Paper Box)	8,105	-	9,545	-	9,914	-	9,886	-	9,381	-	9,503	-		
Toronto	458	-	584	-	551	-	512	-	523	-	499	-		
St. Marys, Ontario	-	-	-	-	-	-	878	-	3,218	-	3,788	-		
Peterborough (formerly Martin-Hewitt)	1,178	-	1,245	-	1,350	-	1,373	-	1,539	-	1,620	-		
Continental Can Company of Canada, Limited - Total	8,912	11.78	10,522	12.38	11,041	12.51	11,706	12.87	12,323	12.32	12,155	12.07	66,659	12.23
(formerly Gair Company Canada Limited)														
Toronto	5,336	-	5,633	-	5,645	-	5,667	-	5,656	-	5,227	-		
London	3,576	-	3,440	-	3,433	-	3,537	-	3,657	-	3,674	-		
Montreal	-	-	1,449	-	1,963	-	2,502	-	3,010	-	3,254	-		
C.I.P. Group - Total	7,711	10.19	9,384	11.04	11,024	12.49	12,639	13.89	15,060	15.06	18,567	18.45	74,385	13.76
Hygrade - London	7,711	-	7,691	-	5,671	-	4,306	-	4,416	-	4,961	-		
- Etobicoke Twp.	-	-	-	-	1,587	-	3,642	-	4,975	-	5,156	-		
- Pointe aux Trembles (Montreal)	-	-	1,693	-	3,766	-	4,691	-	5,669	-	5,632	-		
Hendershot - Hamilton, later Burlington (independent until 1960)	2,298	3.04	2,378	2.80	2,169	2.46	2,245	2.47	2,566	2.57	2,818	-	11,656	2.16



Table 9-B (continued)

	1 9 5 5	1 9 5 6	1 9 5 7	1 9 5 8	1 9 5 9	1 9 6 0	Cumulative Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
	%	%	%	%	%	%	%
Hygrade (St. John's Newfoundland)	-	-	-	-	94	646	740
Maritime Paper Products Limited	1,601	1,841	2,037	2,058	2,095	2,220	11,852
(or Industrial Containers Limited)	52.89	51.89	54.22	52.39	52.35	47.60	51.70
Wilson Boxes, Limited	1,426	1,707	1,720	1,870	1,813	1,798	10,324
(in 1960 Bathurst Containers (Maritimes)	47.11	48.11	45.78	47.61	45.30	38.55	45.07
Limited)	3,027	3,548	3,757	3,928	4,002	4,664	22,926
TOTAL, Maritimes	100.00	100.00	100.00	100.00	100.00	100.00	100.00
TOTAL, C A N A D A	91,422	102,862	109,437	113,022	124,635	126,053	667,431

(1) May include sales value of products other than those named in title of table.

(2) Acquired by St. Lawrence in 1959.

(3) Prior to 1955 the name of this company was Martin Paper Products Limited. It was acquired by Powell River Company Limited in 1954. A 50 per cent interest was sold to MacMillan and Bloedel in 1958.

SOURCE: Returns of Information.



While the tables indicate the relative importance of the firms as manufacturers within districts, they do not indicate the shares of regional markets held by individual firms.

One of the outstanding features of Table 9A is the high degree of stability in the shares of the regional production held by certain firms. Consider the shipments by companies located in the Central Provinces. Of the total shipments Canadian Wirebound's share varied from a high of 10.21 per cent to a low of 8.52 per cent (1949 and 1954). The share of Gair varied from a high of 13.39 per cent in 1948 to a low of 12.51 per cent in 1954. The share of Hinde & Dauch varied from a high of 25.87 per cent in 1950 to a low of 22.93 per cent in 1954. The share of Kraft Containers varied from a high of 11.44 per cent in 1952 to a low of 10.27 in 1949. Similarly the share of sales held by Shipping Containers varied from a high of 12.14 per cent in 1952 to a low of 10.41 per cent in 1950. Similarly a quite remarkable degree of stability is demonstrated in the percentages of total shipments of Hilton and Martin Paper in relation to the total shipments by firms on the Prairies. Again in the Maritimes the percentages of total shipments held by Maritime and Wilson, while they do show somewhat greater variation than other areas, nevertheless give an overall impression that neither firm gained significantly at the expense of the other.

It is true, of course, that there were more significant variations in the shares of total shipments held by some of the smaller firms. Acme, for instance, in 1948 accounted for only 1.62 per cent of the total shipments of the Central Provinces, but its share grew until in 1954 it held 3.46 per cent of total shipments by the firms in the Central Provinces. In other words, Acme had more than doubled its share of total shipments in 1954. Some other smaller firms experienced declining shares of total shipments, one example being Superior, another being Corrugated Paper Box, whose share fell from 5.41 per cent in 1948 to 3.63 per cent in 1954.

It can be said, however, that those firms which held the largest shares of the market in 1948 held the largest shares of the market in 1954 and that their shares had shown no appreciable change in that seven year period. It should be noted that this high degree of stability was maintained while the total shipments of shipping containers rose from \$39,372,000 in 1948 to \$81,292,000 in 1954 - in other words, in a market which more than doubled in value.

Counsel for Canadian Boxes stated during the course of the hearing that sales by Canadian Boxes in Alberta in 1954 came to approximately \$52,000 out of the company's total figure of \$4,268,000. Counsel stated that although he did not have the figures for Saskatchewan



and Manitoba they would undoubtedly be substantially less. It appears probable, then, that the sales of Canadian Boxes were made almost entirely in British Columbia (Hearing, p. 415).

It is particularly misleading to look on the totals for the whole Western district in the above table as representing total sales in the Prairie Provinces. As indicated above some sales were made in this area by Canadian Boxes. Again, it is clear from the documentary evidence that some of the firms in Central Canada were shipping into the Prairies (Serial 26415 2HCL). Again, as will be shown in a subsequent chapter, competition from the United States was present in the Prairie Provinces after 1952.

During the period 1954-60, again, only gradual change is seen in the shares of total production of shipping containers in the Central Provinces. The Bathurst group of converters, the Hinde & Dauch group, the C.I.P. group and Continental Can were the leading producers in this region throughout the period. But in 1958 C.I.P. replaced Continental Can as the third largest. Of the four, the C.I.P. group was the only one to increase its share of production to any significant extent, while Bathurst and Hinde & Dauch declined relatively. C.I.P.'s importance increased by about half prior to its acquisition of Hendershot in late 1959. Among the minor producers, several increased their shares of total production in a way highly significant to themselves individually, e.g., Superior Box, Pembroke Shook Mills, Acme and Sherbrooke. But the four large companies which accounted for 67.58 per cent of production in 1954<sup>(1)</sup> still dominated in 1959 when they accounted for 74.34 per cent of the total. Further concentration occurred in 1960 with C.I.P.'s acquisition of Hendershot. In 1960 the big four's share was 77.00 per cent.

In the Prairie Provinces, the most notable change was the very large increase in the relative importance of production from the new plant in St. Boniface, Manitoba, owned in the years 1955-57 by Norwood, and thereafter by Bathurst Containers. Hinde & Dauch's Prairie plants (formerly Hilton) and Martin Paper suffered relative declines in importance.

In British Columbia a major shift occurred. Whereas in 1954 Canadian Boxes accounted for all the British Columbia production, by 1960 its share had fallen to 55 per cent. Martin Paper, beginning as a minor producer in 1955, produced 45 per cent of the total in 1960.

---

(1) This figure of 67.58 per cent does not include the production of companies acquired by any of these four companies in 1954. If the production of such acquired companies were included the percentage would be 81.34.

In the Maritimes stability in market shares was maintained until 1959 when Hygrade began producing in St. John's, Newfoundland. By 1960 Hygrade accounted for almost 14 per cent of total production in this area. Both other firms of the region experienced corresponding declines in relative importance. Of the two companies, Wilson had the more severe decline.

As we have seen above, competition from imported shipping containers, during the period under discussion has been quite insignificant. In addition, it may be questioned whether the sales of Canadian-made corrugated shipping containers and solid fibre containers were subject to competition from products made from other materials. On this point the Statement of Evidence has the following to say:

"10. Shipping containers are of many sorts. For centuries the principal types were wooden boxes and barrels. These traditional types as well as steel drums and other containers, including large numbers of wire-bound boxes, cans and tubes made of fibreboard, are still used for some types of shipments. Barrels and drums are heavily used, for example, in the shipment of liquids and powdered solids. Wooden boxes are still extensively used in export shipments to overcome the hazards of rough handling and exposure to weather. They are also used for the shipment of very heavy goods both in domestic and export trade and for domestic shipment of certain agricultural products. Over an extensive range of uses, however, wooden boxes have been completely displaced by fibreboard shipping containers. This has been a development of the twentieth century, mostly after the war of 1914-18.

11. Paperboard shipping containers have been of two main types: corrugated and solid fibre. . . .

12. Because of its high rigidity and relatively heavy weight, solid fibreboard was the leading substitute for wood in the early years, and corrugated material did not obtain ready acceptance until a later date. As time went on, however, corrugated boxes virtually displaced solid fibreboard shipping containers. Only three companies in Canada were making solid fibreboard containers in 1954, and only on a limited scale. . . . In the United States there have been developments in the use of solid fibreboard containers made from board specially treated to withstand weather, especially for packaging supplies for the Armed Forces. This does not amount to much in terms of volume, however, either in the United States or in Canada.

13. In both countries there remains further scope for the substitution of corrugated shipping containers in applications which have traditionally required other materials, and this is constantly going on. In that range where substitution has already taken place, however, there is no present economic substitute for corrugated shipping containers. This will remain so as long as no cheaper and lighter materials are developed capable of doing the job. None of the oldertypes of containers can compete in these respects."

(Statement of Evidence, Vol. I, pp. 17-18)

In the Census of Industry reports prepared by the Dominion Bureau of Statistics, tabulations of materials used generally include an item or items for packaging materials, a category which obviously contains other things in addition to shipping containers. In the case of some industries, however, the Dominion Bureau of Statistics' reports contain separate items for the value of paperboard shipping containers bought by the industry in question. The following table indicates the relative importance of shipping containers among the total cost of materials purchased by each of five industries in the food and beverages group of industries:

Table 10

Cost of Non-Wooden Cases and Cartons in  
Specified Industries

	1945	1950	1955	1959
<u>Brewing Industry</u>				
Total Cost of Materials (\$000)	20,493	42,018	48,678	57,936
Cost of Cartons:				
. . . value (\$000)	2,843	7,927	11,970	12,813
. . . as per cent of total materials	13.9	18.9	24.6	22.1
<u>Wine Industry</u>				
Total Cost of Materials (\$000)	3,475	4,648	5,443	7,368
Cost of Cartons:				
. . . value (\$000)	126	236	232	459
. . . as per cent of total materials	3.6	5.1	4.3	6.2
<u>Distilling Industry</u>				1958 <sup>(1)</sup>
Total Cost of Materials (\$000)	23,957	30,115	44,385	55,280
Cost of Cartons:				
. . . value (\$000)	272	905	2,245	2,787
. . . as per cent of total materials	1.1	3.0	5.1	5.0
<u>Biscuit Industry</u>	1947 <sup>(2)</sup>			1959
Total Cost of Materials (\$000)	18,647	30,328	34,000	39,164
Cost of Cartons:				
. . . value (\$000)	1,966	3,355	5,285	4,151
. . . as per cent of total materials	10.5	11.1	15.5	10.6
<u>Bread &amp; Other Bakery Products Industry</u>	1945			1958 <sup>(1)</sup>
Total Cost of Materials (\$000)	62,829	109,213	133,299	157,268
Cost of Cartons:				
. . . value (\$000)	2,338	4,545	6,339	6,890
. . . as per cent of total materials	3.7	4.2	4.8	4.4

(1) Latest available figures.

(2) 1945 figures not available.

Source: Dominion Bureau of Statistics, The Brewing Industry; The Wine Industry; The Distilling Industry; The Biscuit Industry; The Bread & Other Bakery Products Industry.



The above table illustrates the varying importance of shipping containers in the total cost of materials. Clearly the cost of cartons to the brewing industry has been growing as a proportion of total cost of materials during the post-war period to the point where such purchases comprise over one-fifth of all materials purchased. Although the cost of cartons in relation to total cost of materials is not as important in the other industries as in the brewing industry, it is clear in the case of the wine industry and the distilling industry, at least, that the cost of cartons is of rapidly growing importance. The most striking example of this occurs in the distilling industry in which in 1945 the cost of cartons comprised only 1.1 per cent of the total cost of materials, whereas in 1955 it accounted for 5.1 per cent. In other words, the relative importance of cartons to this industry in 1955 was more than four times as great as it was in 1945 in this particular industry.

It is also of importance in assessing the implications of the cost of shipping containers for the Canadian economy to know what industries are among the most important customers of the shipping container firms. On this subject the Statement of Evidence has the following to say:

"31. The shipping case manufacturers, in their returns of information, were asked to report the amount of their sales for the year 1954 to each of their ten leading customers. The resultant figures aggregated nearly \$32 million, out of total industry sales of nearly \$81 million. These leading customers were classified by type of business, as closely as possible to conform with D.B.S. industry classification. The following table shows the relative importance of the different classes of purchasers in the sample:



	Total Sales to All Customers Included in the Sample		
	Value	As per cent of:	
	(\$000)	Total Sample	Total In- dustry Sales
<u>Manufacturers:</u>			
Breweries	9,773	30.6	12.1
Fruit & Vegetable Canners & other Misc. Food Processing	3,715	11.6	4.6
Biscuits & other Bakery Products	3,446	10.8	4.3
Meat Packers	3,058	9.6	3.8
Glass Products	2,123	6.7	2.6
Chemicals & Allied Products (incl. soap)	2,092	6.6	2.6
Electrical Apparatus & Supplies	1,324	4.1	1.6
Paper Products	1,057	3.3	1.3
Distilleries	948	3.0	1.2
Dairy Products	758	2.4	1.0
Miscellaneous	354	1.1	.4
Can	327	1.0	.4
Textiles & Clothing	312	1.0	.4
Rubber Footwear & other Rubber Products	289	.9	.4
Tobacco Products	271	.8	.3
Fish Canners	262	.8	.3
Furniture	216	.7	.3
Wood Products	219	.7	.3
Sugar Refining	172	.5	.2
Auto Parts	167	.5	.2
<u>Trade</u>			
Paper Converters and Distributors	643	2.0	.8
Chain & Department Stores	388	1.2	.5
Food Wholesalers	29	.1	-
Total	<u>31,943</u>	<u>100.0</u>	<u>39.6</u>

They were also asked to provide a breakdown of their total sales by classes of customers, but most were able to do so only in very general terms. In addition to the classes of buyers specified above, sales were reported by one or more manufacturers: to makers of building products, batteries, antifreeze, cameras and films, rubber, clocks, toys and novelties, household supplies, and machinery; to the

Department of National Defence; to wholesalers, advertisers, and retail and mail order suppliers; and to chick hatcheries."

(Statement of Evidence, Vol. I, p. 27)

3. Integration and Industry Structure

During the period 1945-60 certain of the containerboard mills acquired firms which were engaged in the manufacture of containers. A list of these acquisitions is given below:

<u>Acquiring Company</u>	<u>Acquired Company</u>	<u>Year of Acquisition</u>
Bathurst Power & Paper Company Limited	Shipping Containers	1945
	Kraft Containers	1946
	Canadian Wirebound	1954
	Norwood	1958
	Maritime (1)	1958
	Wilson	1960
Crown Zellerbach	Canadian Boxes	1945
Hinde & Dauch	Corrugated Paper Box	1954
	Hilton	1954
	Martin-Hewitt	1954
Canadian International Paper Company	Hygrade	1954
	Hendershot	1960
St. Lawrence	Hinde & Dauch and its subsidiaries	1959
MacMillan & Bloedel	Martin Paper <sup>(2)</sup>	1959
MacMillan, Bloedel and Powell River <sup>(3)</sup>	Sidney Roofing	1960
Abitibi	Pembroke Shook Mills	1960

(1) Large minority holding.

(2) Martin Paper Products Limited was acquired in 1954 by Powell River Company Limited, which subsequently, in 1959, sold a half interest to MacMillan & Bloedel Limited. Powell River Company Limited did not operate a container-board mill.

(3) At the end of 1959 MacMillan & Bloedel Limited and Powell River Company Limited amalgamated. The latter was chosen as the parent company and renamed MacMillan, Bloedel and Powell River Limited.

The acquisitions listed above had the effect of putting substantial proportions of the Canadian capacity for producing shipping containers into the hands of the containerboard firms. The acquisition of Canadian Boxes by Crown Zellerbach in 1945 meant that during 1947-54, 100 per cent of the output of shipping containers in British Columbia was produced by Crown Zellerbach's subsidiary. The acquisitions by Bathurst meant that during 1948-54 Bathurst controlled the production of not less than 21 per cent and as much as 23.6 per cent of the production in the Central Provinces.

In the period 1947-54, Hinde & Dauch, Acme and Gair were, of course, integrated enterprises embracing both board mills and corrugated shipping container operations. Acme however, was very small in relation to the other two, and used substantially all of its own production of board.

The combined shares of shipping container production in the Central Provinces held by Hinde & Dauch, Gair and the container subsidiaries of Bathurst are given in the following table:

<u>Year</u>	<u>% of Production in Ontario and Quebec</u>
1948	59.15
1949	58.86
1950	60.16
1951	60.62
1952	61.85
1953	58.74
1954	57.33

Source: Returns of Information

Thus it can be seen that this group, during the years 1948-54, controlled never less than 57.3 per cent and as much as 61.8 per cent of the total production of shipping containers in the Central Provinces. In addition, it is remarkable that the group's share of this market showed very little change over a seven year period during which the total market was expanding rapidly.

During the period 1954-60 one other large integrated concern, C.I.P., entered the picture with its subsidiary, Hygrade, acquired in 1954. The result in the Central Provinces was that the share of production held by the four large integrated concerns rose to the 75 per cent level and remained at that level until 1959, as shown below:

Four Large Integrated Producers' Combined  
Share of Shipping Container Production,  
Ontario and Quebec  

---

(per cent)

1955	76.50
1956	75.69
1957	75.44
1958	75.38
1959	74.34

This share rose again to 77 per cent in 1960 with C.I.P.'s acquisition of Hendershot.

In British Columbia, production until the end of 1954 was monopolized by Crown Zellerbach's subsidiary, Canadian Boxes. The entry of Martin Paper into the British Columbia market in 1955 substantially altered this situation. The share of British Columbia production of this non-integrated firm rose from 15.23 per cent in 1955 to 40.17 per cent in 1958. The acquisition by MacMillan & Bloedel of a 50 per cent interest in Martin Paper meant that for the remainder of the period Martin Paper's production was that of an integrated concern. Hence production in this region was once again entirely in the hands of integrated companies.

On the Prairies, an unintegrated producer, Martin Paper, held from 56.32 to 57.34 per cent of the market in the years 1955-58, and until 1958 Norwood, with a small share, operated independently. The acquisition of Norwood's assets by Bathurst in 1958 and the acquisition of a 50 per cent interest in Martin Paper by MacMillan & Bloedel in 1959 meant that at the end of the period 100 per cent of the production on the Prairies was in the hands of integrated producers.

In the Maritimes, the trend of events has been similar. Wilson became in 1960 a wholly-owned subsidiary of Bathurst. The latter in 1958 had acquired a large minority interest in Maritime and Minas Basin a majority interest in Maritime. The entry of Hygrade into production in this area in 1959 was, of course, the entry of an integrated producer. By the end of the period, 100 per cent of production in the Maritimes was by integrated firms.

Because some integrated concerns have shipping container plants in more than one market area, it would be well to take a Canada-wide view of the share of the shipping container market served by integrated firms.

Table 11

Percentages of Total Canadian Production  
of Shipping Containers Produced by Converters  
Owned by Containerboard Mills, 1955-60

Year	Bathurst	H & D	Gair	C.I.P.	MacMillan, Bloedel and Powell River	Crown Zellerbach	Acme	Abi- tibi	Total
1955	23.78	24.43	9.75	-	-	4.38	3.24	-	65.58
1956	22.52	23.63	10.23	9.12	-	3.51	3.48	-	72.49
1957	20.66	23.18	10.09	10.07	-	4.51	3.48	-	71.99
1958	20.22	22.06	10.36	11.18	-	4.30	3.80	-	71.92
1959	22.85	20.81	9.89	12.16	8.66	3.59	3.91	-	81.87
1960	23.79	20.67	9.64	15.24	8.48	3.80	4.01	3.35	88.98

Source: Returns of Information



By the end of the period, 88.98 per cent of the total came from integrated firms.

Another aspect of the containerboard and shipping container industry was the extent to which the integrated producers, that is, those firms which were in both the fields of containerboard manufacture and container manufacture, dominated the shipment of containerboard in Canada. The number of integrated producers increased from 1947 to 1960. In the period of 1947-54, however, there were five of these, namely, Acme, Bathurst, Hinde & Dauch, Gair and Crown Zellerbach. The total shipments of containerboard to Canada as a whole made by integrated firms expressed as percentages of the total shipments by all containerboard mills to Canada as a whole are shown in the following table:

Table 12

Shares of Total Canadian Shipments of Containerboard  
Made by Integrated Firms, 1947-60 (1)(2)  
(per cent)

Year	Minas	Bath.	H & D	Gair	C.Z.	C.I.P.	M.B.P.R.	St.L.	Acme	Abit.	S.R.	TOTAL
1947	-	28.33	29.37	7.43	6.05	-	-	-	1.77	-	-	72.95
1948	-	27.05	27.05	6.67	6.31	-	-	-	1.36	-	-	68.44
1949	-	26.43	24.51	7.89	6.44	-	-	-	1.93	-	-	67.20
1950	-	25.80	22.35	8.26	6.69	-	-	-	2.30	-	-	65.40
1951	-	26.59	22.05	8.31	5.50	-	-	-	2.36	-	-	64.81
1952	-	26.00	21.03	7.93	5.50	-	-	-	2.27	-	-	62.73
1953	-	27.30	20.16	7.20	6.30	-	-	-	2.34	-	-	63.30
1954	-	28.30	17.80	7.72	6.29	-(3)	-	-	2.78	-	-	62.89
1955	-	30.60	19.73	6.62	4.45	-	-	-	2.34	-	-	63.74
1956	-	25.64	19.02	5.65	3.90	4.34	-	-	2.76	-	-	61.31
1957	-	22.56	20.03	5.92	5.35	9.32	-	-	2.42	-	-	65.60
1958	-	19.56	19.49	5.90	5.40	13.77	-	-	2.36	-	-	66.48
1959	0.98	20.49	18.04	5.84	5.23	15.93	3.50	-	2.15	-	-	72.16
1960	0.91	19.80	-	5.51	4.65	17.21	4.31	38.91	2.41	3.68	0.45	97.84

- (1) Abbreviations:
- Abitibi
  - Hinde & Dauch
  - Crown Zellerbach
  - C.Z.
  - Canadian International Paper Company
  - St. Lawrence
  - St. Lawrence
  - Sidney Roofing
  - S.R.
  - MacMillan & Elodeel, later MacMillan, Elodeel and Powell River
  - M.B.P.R.
  - Minas Basin
  - Bathurst
  - Bathurst

(2) Firms are classified as integrated in this table and entered for the first time in the year following that in which they acquired conversion operations or otherwise became part of an integrated concern, with the exception of firms which attained integrated status in 1960. In 1960 Sidney Roofing was acquired by MacMillan, Elodeel and Powell River, the latter already an integrated concern.

(3) No shipments by C.I.P. in 1955.

SOURCE: Returns of Information.

From the foregoing table it can be seen that in the years 1947-54 respectively the four large integrated producers accounted for the following percentages of total Canadian shipments of containerboard: 71.18, 67.08, 65.27, 63.10, 62.45, 60.46, 60.96, and 60.11. (The totals in the above table include the shares of Acme.) There was an obvious decline in the percentage of the totals for which these four large integrated firms were responsible as other firms entered production.

In the years 1955 to 1960 the continued acquisition of shipping container firms by containerboard manufacturers has meant that a constantly-increasing share of total Canadian production of containerboard has been made by integrated board-and-box firms.

Thus by the end of 1960 practically all of the Canadian shipments of containerboard were being made by eleven board mills which owned or were otherwise associated with converting operations. Of this group, the three largest (Bathurst, C.I.P., and St. Lawrence) accounted for 75.92 per cent of the total.

Although the foregoing tables give an indication of the relative importance of the integrated mills as sources of containerboard for the Canadian container industry, they do not give any relevant information about market control: for the relevant markets are not to be found in Canada as a whole, but rather in the various regions. For this purpose we shall divide Canada into the four areas previously referred to: British Columbia, the Prairies, Ontario and Quebec (together), and the Maritimes, and we shall examine the importance of shipments by integrated companies within each of these areas.

In British Columbia Crown Zellerbach had a complete monopoly of Canadian shipments of containerboard, 1947-54. That is not to say that there were no sales of containerboard made in British Columbia from other sources, for imported containerboard did enter the British Columbia market; but for Canadian shipments of containerboard to this area, Crown Zellerbach was solely responsible.

In the period 1955-60 Crown Zellerbach lost its position as sole Canadian supplier to British Columbia as Sidney Roofing, Abitibi and MacMillan & Bloedel made sales to the area. The acquisition of integrated status by Sidney Roofing and MacMillan & Bloedel, together with the absence of Abitibi from this market after 1956, meant that by the end of the period all Canadian firms supplying British Columbia were integrated firms. This is shown in Table 13.

Table 13  
Integrated Firms<sup>(1)</sup> Shares of Total Board Shipments  
to British Columbia Market, 1947-60  
(per cent)

<u>Year</u>	<u>Crown Zellerbach</u>	<u>Sidney Roofing</u>	<u>MacMillan &amp; Bloedel</u>	<u>Total</u>
1947	100.00	-	-	100.00
1948	100.00	-	-	100.00
1949	100.00	-	-	100.00
1950	100.00	-	-	100.00
1951	100.00	-	-	100.00
1952	100.00	-	-	100.00
1953	100.00	-	-	100.00
1954	100.00	-	-	100.00
1955	93.64	-	-	93.64
1956	94.63	-	-	94.63
1957	83.29	-	-	83.29
1958	72.08	-	-	72.08
1959	72.24	-	24.18	96.42
1960	59.23	4.02	36.75	100.00

---

(1) Firms are first entered in this table in the year following their attainment of integrated status, with the exception of those attaining such status in 1960.

SOURCE: Returns of Information.

In the Ontario and Quebec market the three integrated producers, Bathurst, Hinde & Dauch and Gair, were responsible for never less than 62.91 per cent of total shipments in the years 1947-54. This may be seen from the following table.

Table 14

Integrated Firms<sup>(1)</sup> Shares of Total Board  
Shipments to Ontario and Quebec, 1947-60  
(per cent)

Year	Bath.	H&D	Gair	C.I.P.	St. L.	Abitibi	Acme	Total
1947	28.84	30.48	8.80	-	-	-	2.10	70.22
1948	27.95	29.06	7.96	-	-	-	1.63	66.60
1949	27.53	28.02	9.40	-	-	-	2.30	67.25
1950	27.51	26.48	9.82	-	-	-	2.73	66.54
1951	28.62	25.95	9.76	-	-	-	2.78	67.11
1952	28.49	25.15	9.46	-	-	-	2.72	65.82
1953	30.57	24.24	8.58	-	-	-	2.81	66.20
1954	32.06	21.48	9.37	-	-	-	3.39	66.30
1955	33.57	22.64	7.82	(2)	-	-	2.78	66.81
1956	27.44	21.58	6.64	5.01	-	-	3.24	63.91
1957	24.56	23.32	7.15	11.03	-	-	2.91	68.97
1958	21.22	22.62	7.23	16.47	-	-	2.89	70.43
1959	22.02	21.02	7.16	19.52	-	-	2.64	72.36
1960	20.66	(3)	6.83	21.09	42.99	4.56	2.98	99.11

(1) Firms' shipments are first entered in this table in the year following that in which they attained integrated status, excepting those which attained such status in 1960.

(2) No shipments by C.I.P. in 1955.

(3) St. Lawrence acquired Hinde & Dauch in 1959.

Source: Returns of Information



In the years 1947-54 respectively the three large integrated firms accounted for the following percentages of total containerboard shipments to this market: 68.12, 64.97, 64.95, 63.81, 64.33, 63.10, 63.39, 62.91. (The totals in the above table include the shares of Acme.)

In the period 1954-60 the series of acquisitions listed earlier in this chapter substantially increased the percentage of total shipments made to this market by integrated mills, until by the end of 1960 virtually all sales were made by them.

It should be borne in mind that because Hinde & Dauch is now a subsidiary of St. Lawrence, one business entity made 42.99 per cent of the total shipments to this market in 1960, and that the three largest accounted for 84.74 per cent of the total in 1960.

The situation in the Prairie Provinces is revealed in the following table.

Integrated Firms,<sup>(1)</sup> Shares of Total Board  
Shipments to the Prairie Market, 1947-60

(per cent)

Year	St. L.	Bath.	H&D	C.Z.	S.R.	M.B.P.R.	C.I.P. <sup>(2)</sup>	Gair	Total
1947	-	37.38	32.55	-	-	-	-	0.31	70.24
1948	-	25.91	19.85	2.04	-	-	-	0.43	48.23
1949	-	20.38	-	5.59	-	-	-	-	25.97
1950	-	12.24	-	9.80	-	-	-	-	22.04
1951	-	4.39	-	14.27	-	-	-	-	18.66
1952	-	2.18	-	9.21	-	-	-	0.04	11.43
1953	-	1.68	-	6.01	-	-	-	0.07	7.76
1954	-	-	2.13	6.47	-	-	-	0.41	9.01
1955	-	-	8.35	0.42	-	-	-	-	8.77
1956	-	-	8.58	1.68	-	-	-	-	10.26
1957	-	-	9.54	3.00	-	-	-	-	12.54
1958	-	-	13.32	1.86	-	-	-	-	15.18
1959	-	-	11.43	1.92	-	22.85	-	-	36.20
1960	56.38	-	-(3)	1.59	1.63	20.39	0.45	-	80.44

(1) Firms' shipments are first entered in this table in the year following that in which they attained integrated status, excepting those firms which attained such status in 1960.

(2) No shipments by C.I.P. to this market in years 1955-59 inclusive.

(3) St. Lawrence acquired Hinde & Dauch in 1959.

Source: Returns of Information

Here a markedly different situation is revealed. Whereas in 1947 three integrated firms, but principally Bathurst and Hinde & Dauch, accounted for slightly over 70 per cent of total shipments, this preponderance was greatly reduced owing, on the one hand, to the complete withdrawal of Hinde & Dauch and Gair from the Prairie market in 1949, 1950 and 1951 and as far as Hinde & Dauch is concerned, in 1952 and 1953 also. On the other hand, other firms began to produce and sell into the Prairie market, notably Dryden and Crown Zellerbach, the latter starting in 1949. The integrated firms' percentage of total sales dropped gradually, until by 1954, with Bathurst out of the Prairie market completely and with Hinde & Dauch, Crown Zellerbach and Gair sending in small amounts, the three integrated producers accounted for only 9.01 per cent. In 1954 St. Lawrence (not at that time an integrated firm) made over 41 per cent of the total shipments to the area. The withdrawal of Hinde & Dauch and Gair in 1949 was accompanied by the entrance of St. Lawrence into this market in a major way. In that year St. Lawrence supplied over 74 per cent of the shipments to the Prairie area. The decline in the preponderance of St. Lawrence was due to the entrance of Dryden.

From the small 1954 figure the integrated producers' share of the Prairie market rose steadily in the years 1955-60, reaching 80.44 per cent in 1960. The most significant upward leap came in 1960 as St. Lawrence attained integrated status.

The situation in the Maritime Provinces is shown in the following table.

Table 16

Integrated Firms<sup>(1)</sup> Shares of Total Board  
Shipments to Maritime Provinces, 1947-60  
(per cent)

Year	Bathurst	H&D	Gair	Minas	C.I.P.	Total
1947	49.87	49.23	-	-	-	99.10
1948	56.48	41.94	-	-	-	98.42
1949	64.39	34.02	-	-	-	98.41
1950	59.36	2.19	-	-	-	61.55
1951	64.00	-	0.79	-	-	64.79
1952	57.67	-	0.45	-	-	58.12
1953	54.28	-	1.77	-	-	56.05
1954	57.80	-	0.17	-	-	57.97
1955	68.41	-	0.61	-	(2)	69.02
1956	65.99	-	-	-	1.98	67.97
1957	63.75	-	-	-	5.32	69.07
1958	61.98	-	-	-	9.25	71.23
1959	66.30	-	-	28.84	4.05	99.19
1960	67.37	-	-	28.04	3.98	99.39

(1) Firms' shipments are first entered in this table in the year following their attainment of integrated status.

(2) No shipments in 1955.

Source: Returns of Information

With respect to the Maritimes, the situation is rather similar to that of the Prairie Provinces in the years 1947-54 inasmuch as complete domination by two of the three integrated producers in the earlier period was very greatly diluted by the entry of other containerboard mills. In 1947, for instance, Bathurst and Hinde & Dauch accounted for 99.1 per cent of all the shipments of containerboard into the Maritimes, and in 1949 these two accounted for 98.41 per cent of the total. Their percentage of total shipments took a sharp drop from 1949 to 1950, however, falling to 61.55 per cent in 1950. During the years 1947-50 Gair made no shipments at all into the Maritimes. In the years 1951-54 Hinde & Dauch ceased entirely to supply the Maritimes and Gair entered but supplied only minor quantities. At the end of the period the two integrated producers, Bathurst and Gair, accounted for only 57.97 per cent of the total. The major factor making for this decline was, of course, the entry of Minas Basin into the picture and its supplying of important percentages of the total containerboard supply of these provinces.

Developments in the period 1955-60 may also be seen in the above table. Minas Basin acquired a majority interest in Maritime in 1958. The withdrawal of Gair from this market meant that by 1960 virtually all shipments were made by three integrated producers, and 95.41 per cent of them by Bathurst and Minas Basin. (St. Lawrence attained integrated status in 1959, but made no shipments to the area in 1960. In accordance with the principle followed throughout the tables concerned with integrated producers' shipments, St. Lawrence would have been shown for the first time in Table 16 in 1960 had it made any shipments. In 1959 its shipments to the area were only 0.21 per cent of the total.)

Another important aspect of the organization of the industry is that each of the three large eastern integrated mills consumed major percentages of its own production of containerboard. This matter will be examined individually for each of the major firms.

The percentages of Gair's total shipments of containerboard which were used in Gair's own container mills are shown in the following table:

<u>Year</u>	<u>Percentage</u>
1947	99.50
1948	95.60
1949	77.33
1950	74.38
1951	77.40
1952	72.34
1953	70.19
1954	67.18

Source: Returns of Information



From the foregoing it can be seen that the percentage of Gair's total shipments used by Gair's container mills declined steadily throughout the period 1947-54. Whereas in 1947 practically all of Gair's production was used in its own mills, by 1954 only two-thirds of it was self-consumed.

In the case of Hinde & Dauch, the reverse of this process can be seen.

<u>Year</u>	<u>Percentage</u>
1947	57.07
1948	65.69
1949	70.66
1950	79.88
1951	81.23
1952	84.87
1953	78.25
1954	80.52

Source: Returns of Information.

Whereas in 1947 Hinde & Dauch used about 57 per cent of its total shipments of containerboard in its own container mills, by 1954 over 80 per cent was so used.

The Bathurst subsidiaries, Shipping Containers and Kraft Containers, during the period 1947-52, similarly used an increasing proportion of Bathurst's total shipments of containerboard, as shown in the following table:

<u>Year</u>	<u>Percentage</u>
1947	55.58
1948	55.15
1949	56.52
1950	60.56
1951	62.64
1952	65.06
1953	57.20
1954	57.27

Source: Returns of Information.

Because of a substantial drop in 1953 and no change in 1954, the increase over the whole period 1947-54 was, however, slight.

The relationship of St. Lawrence to the other three large producers is also of interest, although St. Lawrence was not an

integrated producer in the period 1947-54. St. Lawrence was the only one of the four largest producers in the Central Provinces which did not have shipping container mills in its ownership, either directly or in the form of subsidiary companies. The proportions of St. Lawrence's total domestic shipments of containerboard which were sent to the three integrated producers are shown in the following table:

<u>Year</u>	<u>Percentage</u>
1947	25.02
1948	27.43
1949	28.06
1950	32.14
1951	31.89
1952	33.44
1953	33.11
1954	26.95

Source: Returns of Information

Thus, anywhere from one-quarter to one-third of St. Lawrence's total domestic shipments was going to the three large integrated producers in this period.

In the years 1955-60 St. Lawrence's shipments to Hinde & Dauch comprised the following percentages of its total domestic shipments:

1955	19.20
1956	20.41
1957	18.58
1958	23.34
1959	27.70
1960	30.30

It should be recalled that in 1959 St. Lawrence acquired Hinde & Dauch.

The shares of their own production of board shipped by the more important board mills to their captive markets in the period 1955-60 are shown in the following table:

Table 17

Share of Each Stated Integrated<sup>(1)</sup> Producer's Total  
Domestic Shipments of Board Sent to Its Own  
Converting Mills, 1955-60

Year	St. L.	Bath.	H.&D.	Gair	C.I.P.	Crown Zellerbach	M.B.P.R. <sup>(2)</sup>
				(per cent)			
1955	-	56.57	96.93	66.16	-	99.26	-
1956	-	67.08	98.08	67.69	84.35	77.97	-
1957	-	68.73	94.45	69.80	83.46	70.55	-
1958	-	77.37	91.87	72.19	69.48	78.31	-
1959	-	81.26	91.35	73.74	64.76	75.25	100.00
1960	30.30	90.73	93.40	75.22	71.10	90.37	99.85

(1) Firms first entered in this table in the year following their attainment of integrated status.

(2) Shipments by Sidney Roofing in 1960 not included.

It should be noted further that each one of the three large eastern integrated producers, in addition to using major fractions of its own production of containerboard in its own container mills, also made shipments of containerboard to the other two major integrated producers. In the case of Gair and Hinde & Dauch, these shipments were of minor significance in the period 1947-54. In the case of Gair, for instance, the minor character of these last-mentioned shipments may be seen from the following. Whereas Gair's consumption of its own production of containerboard amounted to anywhere from 67.18 per cent to 99.5 per cent of its total shipments, its shipments to all three integrated producers, including itself, never deviated from the percentages represented by its own consumption by more than 5.46 per cent (1953), and in most years the percentages were much smaller.

In the case of Hinde & Dauch, again, the percentages represented by Hinde & Dauch's shipments to the three integrated producers, including itself, never deviated from Hinde & Dauch's consumption of its own production of containerboard by more than 4.53 per cent (1953), and in most years were smaller than that.

In the case of Bathurst, however, shipments to the other two integrated producers were somewhat more significant, and the relationship between Bathurst's total domestic shipments to the integrated producers, including itself, may be compared with the percentages consumed by its own subsidiaries, these percentages being related to Bathurst's total shipments to all firms in all of Canada.

<u>Year</u>	<u>Percentage of Bathurst's Total Shipments Going to Bathurst's Subsidiaries</u>	<u>Percentage of Bathurst's Total Shipments Going to the Three Integrated Producers</u>
1947	55.58	62.38
1948	55.15	62.84
1949	56.52	62.94
1950	60.56	66.70
1951	62.64	67.43
1952	65.06	70.27
1953	57.20	64.27
1954	57.27	66.10

Thus it can be seen that sales to the other integrated producers were somewhat more important to Bathurst than they were to Gair or Hinde & Dauch.

In the earlier part of this section we have examined the importance of the integrated producers as suppliers of shipping containers to the four regional markets as well as to Canada as a whole.

The latter part of this section has made a similar examination with respect to containerboard. It is now desirable to draw together the main features of this section into one comprehensive view of integrated producers' activities in the two fields.

From Tables 9A and 12 it can be shown that the overall situation in the period 1948-54 was one in which from 52.32 to 55.62 per cent of the total container shipments by all firms in Canada were made by Hinde & Dauch, Gair, Canadian Boxes, Kraft Containers and Shipping Containers, which either owned, or were the subsidiaries of firms which owned containerboard mills which, in the period 1947-54, made from 60.11 to 71.18 per cent of the total shipments of containerboard by all mills to Canada as a whole. This appears from the following data derived from Tables 9A and 12.

Shipments of Shipping Containers  
by Hinde & Dauch, Canadian Boxes, Gair,  
Shipping Containers, and Kraft Containers,  
1948-54

<u>Year</u>	<u>Total, Five Firms</u> <u>(\$000)</u>	<u>Total, Canada</u> <u>(\$000)</u>	<u>Per Cent</u>
1948	21,329	39,372	54.17
1949	25,128	46,461	54.08
1950	30,948	55,737	55.53
1951	38,283	68,824	55.62
1952	37,398	67,792	55.17
1953	41,690	77,971	53.47
1954	42,535	81,292	52.32

Shipments of Containerboard by Bathurst,  
Hinde & Dauch, Gair, and Crown Zellerbach  
as Per Cent of Total Canadian Shipments, 1947-54

1947	71.18
1948	67.08
1949	65.27
1950	63.10
1951	62.45
1952	60.46
1953	60.96
1954	60.11

If restriction to the big three is made - Hinde & Dauch, Gair and the Bathurst group - the ratios of concentration are scarcely less remarkable. The three integrated producers of the East held never less than 47.07 per cent of the container market (it went as



high as 50.7 per cent in 1952 - see Table 9A). In the provinces of Ontario and Quebec, these three firms shipped never less than 62.91 per cent of the total shipments of containerboard to these provinces, and the figure was 68.12 per cent in 1947 (Table 14).

In the period after 1954 the importance of the integrated producers in both fields increased greatly in all regional markets as well as in Canada as a whole. In 1960 the integrated producers made 88.98 per cent of the total Canadian production of shipping containers (Table 11) and 97.84 per cent of the total Canadian production of containerboard (Table 12). In British Columbia in 1960 the two integrated firms made 100 per cent of the area's production of shipping containers (Table 9B) and 100 per cent of the shipments of board to the area (Table 14). On the Prairies three integrated firms produced all the shipping containers (Table 9B) while the integrated producers as a whole accounted for over 80 per cent of all board shipments to the area (Table 15). In the Central Provinces integrated firms made 99.11 per cent of total board shipments to the area (Table 14) and 86.21 per cent of the area's production of containers (Table 9B). In the Maritimes integrated firms accounted for 100 per cent of the area's production of shipping containers (Table 9B) and 99.39 per cent of all board shipments to the area (Table 16).

There is, moreover, a marked tendency for a small number of integrated producers to dominate both board and container sales in more than one market area. For example in 1960 St. Lawrence (and its subsidiaries) and Bathurst (and its subsidiaries) made 63.65 per cent of total board shipments to Ontario and Quebec and 46.48 per cent of total shipping containers produced in the area; St. Lawrence made 56.38 per cent of total board shipments to the Prairies and St. Lawrence and Bathurst 43.52 per cent of total shipping containers produced in the area; while the Bathurst group alone made 67.37 per cent of total board shipments to the Maritimes and 86.15 per cent of all shipping containers made in the area. MacMillan and Bloedel (and its subsidiaries) in 1960 made 40.77 per cent of total board shipments to British Columbia and 44.92 per cent of the shipping containers made in the area; and in addition 22.02 per cent of total board shipments to the Prairies and 56.48 per cent of the shipping containers made in the area. (See Tables 9B, 13, 14, 15, 16).

In view of the foregoing evidence that the Canadian markets, both for containerboard and for shipping containers, have been dominated by integrated firms and often by very few of them, a natural question arises as to whether the technology of containerboard production and of shipping container production contains certain factors which inherently make the production of containerboard and of shipping containers by a vertically-integrated firm more economical and efficient than the production of the two products separately by independent firms. With respect to this question, the Statement of Evidence has the following to say:

"26. Shipping container plants, when economically located, are central to the market areas where their customers' plants are found. This is largely because bundles of containers are unusually bulky and incur heavy freight costs when shipped long distances. The market areas referred to also generate large supplies of waste, which accounts for the fact that mills making jute boards have tended to be located in great market areas where they can combine economically the manufacture of waste grades of containerboard, other grades of paperboard, shipping containers, and other fibre boxes. The board mills making kraft grades, however, need to make their own pulp requirements and so must locate near supplies of cheap power and on waterways with access to pulpwood limits. Thus, there is no technological reason why there should be vertical integration between kraft mills and shipping container manufacturers. When this has taken place it must have resulted from financial and commercial considerations."

(Statement of Evidence, Vol. I, p. 21)

Although counsel for the Bathurst group challenged the validity of the assertion that there was no technological reason why there should be vertical integration between kraft mills and shipping container manufacturers - his words were "Now, in paragraph 26 on page 21 I take exception to the statement that there was no technological reason for the vertical integration of the industry" (Hearing, p. 511) - yet it is obvious from his ensuing comments that he did not really advance any reasons for thinking that the generalization was wrong. About all that he added to what is in the Statement, paragraph 26, was that competitive conditions may contribute to integration between board mills and shipping container mills (Hearing, p. 512). Obviously competitive conditions would be related to commercial considerations.

The following testimony by Mr. A.G. Sexsmith of MacMillan & Bloedel is to the effect that there are no economies of distribution involved in selling containerboard to a subsidiary company as compared with selling it to an independent converter:

"Q. Do you consider there is any savings in distribution costs in selling to your subsidiary?

A. You mean over selling to somebody else?

Q. Yes?

A. No.

Q. It is about the same selling effort to sell your subsidiary as an independent firm?

- A. Basically, it is contract selling. We sell a contract and you deliver according to that contract. You must give the same amount of service to your subsidiary, complaint, production, and deliverwise [sic], so there is the same amount of work."

(Vancouver Hearing, p. 104)

## CHAPTER II

### INDUSTRY ORGANIZATION, 1939-47

#### 1. Organization up to March, 1942

Prior to World War II the principal manufacturers of corrugated and solid fibreboard boxes were members of or associated with a trade organization known as Container Materials Limited. Four of the largest manufacturers of paperboard used in making corrugated boxes were members of an organization known as Shipping Case Material Manufacturers Association.

Following an inquiry conducted by the then Commissioner, Combines Investigation Act, which was completed in 1939 both groups of manufacturers and Container Materials Limited were prosecuted under what was then section 498 of the Criminal Code. The box manufacturers case was appealed to the Supreme Court, which in 1942 affirmed the conviction of the courts below under section 498(d). The board manufacturers then pleaded guilty in March, 1942 to offences of unduly lessening or preventing competition.

The great majority of the companies whose activities are the subject matter of the present inquiry were among those prosecuted in the two cases.

#### 2. Wartime Controls

Shipping containers came under price controls of the Wartime Prices and Trade Board in December, 1941, pursuant to the Maximum Price Regulations (P.C. 8527 and 8528). Mr. F.C. Hayes was appointed Administrator of Shipping Cases. He was, at the time of his appointment, Vice-President in Charge of Manufacturing for Shipping Containers Limited. The prices prevailing during the basic period, which was defined as the four weeks, September 15, 1941 to October 11, 1941, remained in effect as ceiling prices throughout the control period except for two increases in price authorized toward the end of it. Administrator's Order A-102, dated April 18, 1942, reaffirmed the establishment of maximum prices of all such products as those:



" . . . established by and resulting from the use of the following decimals applied in the normal practice and according to the standard pricing manual of Container Materials, Ltd., which said pricing manual was in effect during said basic period."

Except for British Columbia, decimals were set forth in this Order for each of the pricing zones in Canada. The British Columbia decimal was established by Administrator's Order A-290 of July 11, 1942.

The decimals referred to above were factors applied to determine the price level under the Container Materials Limited (C.M.L. pricing system. The last price-fixing act of C.M.L. appears to have become effective June 1, 1940 when these decimals were increased to the levels still in effect in November, 1941 when the legal price ceilings were established under the Wartime Prices and Trade Board regulations (Serials 18480 HCL, 7559 MPP). Although all agreements on prices, rules and regulations as established by C.M.L. had been discontinued after June, 1940, the fact that the prices which were frozen in 1941 were the same as those established by C.M.L. effective June 1, 1940 indicates that the container manufacturers must have voluntarily adhered to the C.M.L. regulations and prices right up to the inception of price control. After November, 1941 the Wartime Prices and Trade Board related ceiling prices to the C.M.L. manual and decimals.

The price ceilings established in this manner continued to the early post-war period when the Government raised the maximum legal prices for shipping containers and finally suspended the price ceilings altogether. The rise in the maximum prices for shipping containers was permitted by Administrator's Order A-1912 of March 28, 1946 (as amended by A-1966 of April 6, 1946). Administrator's Manual "A" replaced the C.M.L. manual as the new basis of pricing as authorized by Order A-1912.

The second rise in the legal maximum prices for shipping containers was permitted by Administrator's Order No. A-2217, dated January 10, 1947, to be effective January 13, 1947. This order said, in part:

" . . .

2. The maximum price at which any person may sell or offer for sale shipping containers shall be the price established by and resulting from the use of the following per 1000 sq. ft. basic material costs applied to the pricing procedure established in Administrator's Pricing Manual B dated January 13, 1947, namely:

. . .



3. The above mentioned pricing manual forms part of this Order to the same effect as though set out herein at full length.

. . ."

(Serial 24100A CPO-36-37)

The order set out tables entitled "BASIC MATERIAL COSTS - per 1000 sq. ft. CORRUGATED FIBRE" and "BASIC MATERIAL COSTS - per 1000 sq. ft. - SOLID FIBRE".

From a letter written by F.C. Hayes in his capacity as Administrator of Shipping Cases, addressed "TO ALL CORRUGATED MANUFACTURERS" and dated January 10, 1947, the relationship of these new material cost tables to Administrator's Manuals "A" and "B" is suggested:

". . .

Effective at the same time will be an increase in the ceiling price of corrugated cartons covered by Order No. A 2217. We are enclosing pages 8-1 to 8-21, which are the new material costs as supplied by the Costs Committee. These pages will become part of Administrator's Pricing Manual B, as previously mentioned. Until such time as Pricing Manual B is available, manufacturers will continue to use Pricing Manual A, together with authorized alterations and the enclosed sheets becoming part of the alterations.

. . ."

(Serial 24100 CPO-36-38)

The following extract from the oral evidence of F.C. Hayes clarifies these matters further:

"MR. GASCOIGNE: It says 'Until such time as pricing Manual B is available, manufacturers will continue to use pricing manual A together with authorized alterations and the enclosed sheets becoming part of the alterations.' So that I take it in effect you were able at this time to send them several factors relating to the material which would, when put into effect, change the Manual A into Manual B ----

Q. Is that correct Mr. Hayes?

A. Yes - yes. It says new material sheets, doesn't it - -

Q. No -- but it does say at the top ---

A. 'We are enclosing pages 8-1 to 8-21 which are new material costs as supplied by the Cost Committee. These pages will become part of Administrator's Manual B as previously mentioned.' So that they were put into A which turned Manual A into Manual B right there, except that it was Alice in Wonderland without pictures, and later on it was Alice in Wonderland with the pictures.

Q. So that what the Wartime Prices and Trade Board authorized at this time was an increase in the material cost components over pricing Manual A and nothing more?

A. No - I think they authorized Manual B - the order says they authorized Manual B -- 'subsequently Manual B' - we didn't know at the time that the ceilings would be off in three months or two months. Manual B was in existence in one form or other when the order was issued. Most of it was in proof sheets - identical with the information in A.

. . .

A. I was authorized to issue Manual B. My memory says that the cost factors of Manual B as far as material is concerned, are different from Manual A, but in the main, the cost factors in Manual B they are the same as in Manual A - that is my memory."

(Evidence, pp. 4417-8, 4420)

It is clear from Serial 24100 CPO that Administrator's Manual "B" as a separate, complete, and tangible single book or manual did not exist on January 10, 1947 although its existence and use were authorized. The following extract from a letter bearing the letterhead "WARTIME PRICES AND TRADE BOARD Inter-Office Correspondence", dated January 23, 1947, from F.C. Hayes to Mr. Ronald Ritchie, Supply Division, Wartime Prices and Trade Board, shows that Administrator's Pricing Manual "B" was in existence as a separate and tangible book within thirteen days after the date of Order No. A 2217:

". . .

We are enclosing herewith Administrator's Pricing Manual B, dated January 13th, 1947.

This is a file copy, which should be kept in the permanent records.

. . ."

(Letter from files of Prices Division, Wartime  
Prices and Trade Board)

The following is added in handwriting at the bottom of the letter:

"Note:      Manual held in W.P.T.B. Library"

From the foregoing it is clear that Administrator's Pricing Manual "B" was created on January 10, 1947 by replacing with 21 pages of revised material costs the material costs of Administrator's Pricing Manual "A" and the retention of the remaining parts of Manual "A" with some slight alterations in the latter.

On April 2, 1947 the prices of corrugated and solid fibre-board shipping containers were suspended from price control by W.P.T.B. Order 711.

Containerboard came under wartime price control on November 17, 1941. P.C. 8527 and 8528 made the prices in effect during the basic period (September 15, 1941 to October 11, 1941) the ceiling prices. Three successive increases in the maximum ceiling prices were permitted by the Wartime Prices and Trade Board. These were effective on March 28, 1946, January 10, 1947 and March 28, 1947 (Orders A-1926, A-2219, A-2323 respectively). The Administrator of Paperboard was Mr. W.H. O'Reilly. Order 737 of June 6, 1947 freed paperboard, including the container grades, from price control.

In addition to its establishment of price ceilings the Wartime Prices and Trade Board provided regulations designed to effect economies in the manufacture of paperboard by simplifying and standardizing production. By this means the sale of paperboard was confined to a few specified grades, calipers and colours (Administrator's Order A-123, April 24, 1942, later amended by Order 436 in a minor way). This regulation of production remained in effect throughout the wartime control period until revoked on December 31, 1947 by Wartime Prices and Trade Board Order 777. Other Orders of the Wartime Prices and Trade Board provided that the paper machines should be operated as directed by the Administrator, that the types of board produced should be as directed by the Administrator, and that reports should be made to the Administrator as he required.

Because the dates on which price ceilings of container-board and shipping containers were increased and the date on which the operation of price ceilings was suspended are of considerable importance in understanding parts of the following chapters, it may be well, for convenient reference, to tabulate them at this point.

Table 18

Dates of Increases in Maximum Ceiling  
Prices and Dates of Suspension of Price  
Ceilings, Containerboard and Shipping  
Containers

<u>Date</u>	<u>Containerboard</u>	<u>Shipping Container</u>
March 28, 1946	Ceiling price increased	Ceiling price increase Use of Manual "A" authorized.
Jan. 10, 1947	Ceiling price increased	Ceiling price increase Use of Manual "B" authorized.
March 28, 1947	Ceiling price increased	-
April 2, 1947	-	Price control suspend
June 6, 1947	Price control suspended	-

3. Manufacturers' Avenues of Communication  
during the Period of Wartime Price  
Control

It is abundantly clear that during the period of wartime price control a number of avenues of contact existed for the members of both Container Materials, Limited and of the Shipping Case Material Manufacturers Association.

Let us look first at the avenues of contact in the shipping container industry.

The formal agreements between Container Materials, Limited and the parties were renewed until June 30, 1940 and then discontinued (Canadian Wirebound's Return of Information, Exhibit 39). The market pooling arrangements were not continued after June, 1940 (Returns of Information, Gair, Exhibit 80; Hinde & Dauch, Exhibit 76; and Canadian Boxes, Exhibit 52). After June 1942 it is clear that the pooling arrangements were no longer in effect because payments from Container Materials, Limited to the companies ceased. After June, 1942 payments by most of the manufacturers to Container Materials, Limited were made to defray the remuneration of the Secretary-Treasurer (Hardy & Badden) and these continued to November 1944. From that time until the end of 1947 remuneration and expenses were paid by the manufacturers to Hardy & Badden on receipt of invoices



in the name of Hardy & Badden (Return of Information of Maritime, Exhibit 66; Serials 11924-34 CBT and 11938 CBT).

The functions of Container Materials, Limited (1942-44) and Hardy & Badden (1944-47) were the provision of secretarial services, the provision of a board room for meetings, and the collection and dissemination of statistics of industry sales. Both oral and documentary evidence indicates that the industry members were of the view that their association through C.M.L. and Hardy & Badden had the specific authority of the Wartime Prices and Trade Board. This is shown in the minutes of a meeting of the Directors of Canadian Wirebound on July 14, 1942 (Exhibit 39), in the minutes of the same board on November 27, 1945, and also in Hygrade's Return of Information (Exhibit 23).

Mr. F.C. Hayes, the Administrator of the Shipping Case Industry apparently considered that C.M.L. could be useful in connection with his functions as Administrator. This is shown by the following excerpt from the minutes of a meeting of the Directors of Canadian Wirebound held on February 24, 1942:

" . . . At a meeting of the Directors of Container Materials Limited, the advisability of winding up the company was considered. At the request of the Wartime Price Administrator of the Shipping Case Industry, the matter was left in abeyance until the Price Administrator discussed the situation with Ottawa. A Meeting of the Executive Committee of our Company will be held shortly to decide our future policy."

(Exhibit 39, Sub-Exhibit Q, p. 8)

Actually the corporate entity, Container Materials, Limited continued to exist until January 2, 1951 (Serial 12193 CBT). The decision to surrender the company's charter had been taken on January 9, 1948 (Serials 20237-38 MHP), but the surrender had been held up owing to income tax complications (Serials 12006-13 CBT). It is likely that the company, as such, had been inactive for some years before 1948.

Another avenue of communication of the shipping container firms during the wartime control period was a Cost Committee of the industry engaged in developing a new pricing formula which, by the end of 1944 had already produced a comprehensive report (Serials 22591-651 MPH). This Committee of the industry had been formed upon the direction of the Administrator of Shipping Cases, Mr. F.C. Hayes. At the hearing, counsel for Bathurst and other companies said that this Committee had been appointed by the Administrator on March 31, 1943, although there is nothing in evidence on this point (Hearing, p. 563).



The work and purpose of this Committee are described as follows in a memorandum written by Mr. Hayes.

" . . .

. . . a ceiling price order was issued, making the current selling price as established by Container Materials Limited the legal ceiling on Canadian carton prices. Subsequently the administrator directed the companies to appoint a Committee who were versed in costing, and under his direction this Committee started to establish more factual costs than those used by C.M.L. I believe, for the first time in Canadian history, complete and accurate cost information was received from some 8 or 10 companies, and was compiled into one general cost summary.

As time progressed, extreme changes in labour costs and changes allowed in material cost by the W.P.T.B. warranted a change in the ceiling price of cartons, and at this time the information collected was published in a selling price manual, hereafter designated as Manual B, and dated November 1st 1946, and on file in the records of W.P.T.B. at Ottawa. This Manual was broken down into several sub-sections, so that changing costs in each of the sub-sections would allow alterations without affecting the other sub-sections.

. . ."

(Serial 7102 CST, being part of 7094-7110 CS

While the above extract from Mr. Hayes' memorandum refers only to Manual "B", it is clear that the work done by this Cost Committee was first incorporated into Manual "A" which replaced the C.M.L. manual as the new basis of pricing in March, 1946 as authorized by Order A-1912 referred to earlier in this chapter. When increases in prices of raw materials came into effect in January, 1947, the material cost components of Manual "A" were revised and the volume became known as Manual "B". This was established as the new pricing basis by Order A-2217.

Manual "A" provided a method for calculating prices applicable to each of eight price zones throughout Canada through the addition of a series of "cost factors" plus a uniform mark-up of 10 per cent. The differences in zone prices resulted from the fact that the "cost factor" applicable to material differed for each zone. On January 10, 1947 the issuance of a new set of material costs reflecting a general increase in containerboard prices changed Manual "A" into Manual "B".

The containerboard manufacturers also continued to maintain some contact throughout the wartime control period. The returns of information to the Director from Bathurst, St. Lawrence, Gair and Hinde & Dauch (Exhibits 82, 74, 80 and 26 respectively) establish that regular payments were made by all these companies to Shipping Case Material Manufacturers' Association until October, 1942. From that time to the end of 1947 these four manufacturers employed Hardy & Badden, formerly Secretary-Treasurer of the S.C.M.M.A.:

" . . . for the preparation and distribution, to each of the participating manufacturers, of statistics relating to the tonnage and value of container board sales. Messrs. Hardy & Badden at times used the rubric 'Container Board Bureau' to identify such services; . . ."

(Exhibit 82)

The other three companies explained that the Container Board Bureau was a statistical organization. Gair's return of information said in addition:

" . . . From 1942 to 1947 an association existed initially under the name of Shipping Case Material Manufacturers' Association, which name was subsequently changed to that of Container Board Bureau. This latter association operated in conjunction with the Wartime Prices and Trades [sic] Board and the Company was a member thereof from some time in 1942 to 1947 when it ceased to function.

. . .

Pursuant to the Wartime Prices and Trades Board the Company, I am advised and verily believe, was required during War II to act in conjunction with other manufacturers of container board. Accordingly the Company, since 1939 participated with the other manufacturers of container board in the joint employment of Hardy & Badden, 44 Victoria Street, Toronto, initially under the name of Shipping Case Material Manufacturers' Association, which name was subsequently changed to that of Container Board Bureau, for the purpose of assisting the Wartime Prices and Trades Board in allocating tonnage to independent corrugated box manufacturers and also for the obtaining and supplying of the necessary statistics in connection therewith. This was for a period from some time in 1942 until on or about the end of 1947."

(Exhibit 80)

It appears that Hardy & Badden were confining their work for the board manufacturers to the exchange of statistics. On August 2, 1945 Mr. P.H. Scowen sent a memorandum to Mr. W.H. Palm (both of these men being officers of Brompton):

"I am again O.K.'ing a debit note from Hardy and Badden - our share being \$175.67 for a quarter.

Is it necessary to keep this on and can you tell me what Badden now does for us other than compiling statistics?"

(Serial A25990 LCO)

On August 3, 1945, Mr. Palm replied:

" . . .

We have not in recent months had any necessity for a Container Board Bureau Meeting as such, although on several occasions informal discussions were held in Toronto between the four mills. There is no question that we need to keep some organization along the lines of the existing one alive and we are definitely going to have numerous problems to deal with in the future.

. . . "

(Serial A25991 LCO)

The last quotation above indicates another avenue of communication of the containerboard manufacturers during the regime of the Wartime Prices and Trade Board, namely, informal discussions held in Toronto between the four mills. Mr. G.T. Cockerill of Bathurst denied that there were any occasions on which the containerboard manufacturers met "on a general meeting basis", but he admitted that on occasion he had met Mr. George Brown (Gair), Mr. L. Winchell (Hinde & Dauch), Mr. W.H. Palm (Brompton) and others, although he denied informal discussions with them of the production and sale of containerboard grades of paperboard (Evidence, pp. 5824-25). Mr. W.H. Palm of Brompton believed that these informal discussions were probably for the purpose of discussing standards (Evidence, pp. 6520-22). Mr. G.T. Cockerill, at another point in the evidence specifically denied that he had ever discussed during the W.P.T.B. period with representatives of the other mills a basis upon which the industry might agree in the post-war period on the establishment of common prices for linerboard and corrugating medium (Evidence, pp. 5830-33). His evidence, however, did indicate where some planning for the post-war period was taking place.

"Q. Let me ask you this then, did you attend meetings towards the end of the wartime control period and after in connection with post-war planning for the industry?

A. . . . there was some post-war committee set up within the Pulp and Paper Association as far as I can remember. I can't remember what its title was but I know that that sort of stayed in with them and the containerboard grades, I think it was, had a committee to handle post-war problems of anticipated problems of the industry as a whole. I don't think that there was anything separate from them."

(Evidence, pp. 5830-31)

Despite the denial of Mr. Cockerill, there is some evidence that the containerboard firms did meet to discuss linerboard prices during the wartime control period. This is shown in a letter written by Mr. P.H. Scowen of Brompton to R.L. Weldon of Bathurst on May 1, 1943:

"Undoubtedly Tiny [Cockerill] has advised you of a recent meeting which the group had to discuss liner board prices, and I presume he has advised you of the outcome of that meeting.

I shall be in Montreal on Tuesday and I hope you will be free so that we may have a few minutes together to discuss this matter. I should like very much to have your views as to the next steps to be taken.

. . . "

(Serials A25971 LCO and A27203 BAN)

Although the exact subject of the discussion does not appear in the evidence, it should be recalled that no change occurred in ceiling prices at that time. Mr. R.L. Weldon, President of Bathurst, thought the discussion probably related to the effects of higher costs and the possibility of obtaining a higher ceiling price (Evidence, p. 6815). Again it will be recalled that the Cost Committee of the shipping container industry had been formed on March 31, 1943.

The final avenue of communication during the period of wartime control was the Board Section of the Canadian Pulp and Paper Association. This Section, whose members comprised both boxboard and containerboard manufacturers, published and still publishes a

booklet entitled "Trade Customs of the Paperboard Industry in Canada", which contains terms and conditions of sale and specifications for standard grades of paperboard including containerboard (Serials 6430-44 CST). Mr. Palm of Brompton and Mr. Cockerill of Bathurst were members of a committee revising this booklet in 1946. The revised booklet was completed. It had so direct an effect upon prices that it could not be used until the end of the wartime price control period. This is shown in Mr. R.C. Godden's memorandum of December 14, 1946

"I have your letter of December 10th re the new book of Trade Customs and would like once again to caution you that officially we are not allowed to use this new book until the price controls are eliminated.

. . ."

(Serial A26007 LCO)

This subject will be treated at greater length in one of the following chapters.



## CHAPTER III

### POST-WAR ORGANIZATION OF THE INDUSTRY

#### 1. Administrator's Manual "B" and Industry's Manual "B"

---

The first step in understanding the post-war organization of the shipping container industry is the clarification of the distinction between and the relation between Administrator's Manual "B", the nature and development of which was discussed in the previous chapter of this report, and a document placed in evidence in the present inquiry as Exhibit 17. The latter was often referred to by the shipping container firms during the period from 1947 onwards as Manual "B". It should be made crystal clear, however, that Administrator's Manual "B" and Exhibit 17 were two distinct and different manuals. In the following Exhibit 17 may from time to time be referred to as the Industry's Manual "B" to distinguish it from the Administrator's Manual "B". Whereas the use of Administrator's Manual "B" was authorized by order of the Wartime Prices and Trade Board, the use of Industry's Manual "B" never was. Industry's Manual "B" later became the basis of the manuals issued by Container Statistics Limited which were often referred to by firms in the shipping container industry as "Ready Reckoners".

It will be recalled from the last chapter that Manual "A" had been prepared by a Cost Committee of the industry at the request and under the direction of the Administrator of Shipping Cases, Mr. F.C. Hayes, and that its use for the calculation of ceiling prices was authorized by order of the Wartime Prices and Trade Board on March 28, 1946. This Manual "A" was converted into Manual "B" on January 10, 1947, when F.C. Hayes in his capacity as Administrator sent to the manufacturers twenty new sheets of material costs to replace the material cost sheets then in Manual "A". He wrote that:

" . . .

. . . These pages will become part of Administrator's Pricing Manual B, as previously mentioned. Until such time as Pricing Manual B is available, manufacturers will continue to use Pricing Manual A, together with authorized alterations and the enclosed sheets becoming part of the alterations."

(Serial 24100 CPO)

Administrator's Pricing Manual "A" was a document of 41 pages of which eight were concerned with material costs. When the price increase of January, 1947 was authorized, eight sheets of material costs were sent to the manufacturers by Mr. Hayes with instructions to substitute for the existing material cost pages. Because the use of material cost sheets for Manual "B" was authorized by letter dated January 10, 1947, it follows that any and all material cost revisions to Manual "A" to turn it into Manual "B" had been made by that date. (A minor exception to this generalization occurs in the fact that a correction in connection with .025 liner was made in a letter dated January 13, 1947 (Serial 24102 CPO).) The alterations in Manual "A" required to turn it into Manual "B" had to be laid before the Chairman of the Wartime Prices and Trade Board in order that he could counter-sign the Administrator's Order.

On the other hand, Industry's Manual "B" (Exhibit 17) had approximately 150 pages of text and some 40 pages of tables dealing with the areas of cartons and sheets. Thus there was a difference between Administrator's Manual "B" and Industry's Manual "B" of some 100 pages. Included in Industry's Manual "B" were diagrams and detailed illustrations dealing with the application of the tables in the Administrator's Pricing Manual.

There is abundant evidence, also, that Industry's Manual "B" was worked on after January 10, 1947.

Mr. Hayes stated that he had all of Industry's Manual "B" in draft form as early as November 1, 1946.

On March 22, 1947 Hardy & Badden wrote as follows:

"We have been advised by Mr. Alex Fleming of the R.G. McLean Company that it will not be possible to have the second proofs of Administrators' Manual 'B' ready before April 10th, 1947.

. . ."

(Serial 24120 CPO)

On June 11, Hardy & Badden wrote to the manufacturers as follows:

"We have received advice from the printer that the work in connection with the Administrator's Manual 'B' has been completed and distribution will be made this week.

(Serials 24141 CPO; 21645 2SPL; 11957 CBT)

Although the distribution of the manual was being carried out in June 1947, it should be borne in mind that price control was suspended on April 2, 1947. Hence it is abundantly clear that Industry's Manual "B" was printed and distributed some months after Administrator's Manual "B" had been created by the distribution of new material cost sheets by the Administrator of Shipping Cases. Indeed, counsel for Bathurst and other companies admitted that the printed Manual "B" was never the official manual of the Wartime Prices and Trade Board because it was printed and distributed after decontrol had occurred (Hearing pp. 686-87).

Another difference between Administrator's Manual "B" and Industry's Manual "B" is the fact that revisions were made in the manual sheets in the Industry's Manual "B" as compared with the Administrator's Manual "B". In a previous paragraph notice has been directed to the fact that Industry's Manual "B" was approximately 100 pages longer than Administrator's Manual "B". In addition, it appears that a series of meetings of a Cost Committee or an Advisory Cost Committee were held after January 13, 1947, the date on which Administrator's Manual "B" went into effect.

These meetings recommended changes in some of the instruction pages of the Administrator's Manual "B". Such a meeting was held on February 26, 1947, attended by Mr. Hayes. A large number of manual sheets were revised at this meeting. The following significant change was made in the manual as appears from the minutes:

"Agreed to change 'pricing' or 'prices' to 'costing' and 'costs' where occurring."

(Serial 24112 CPO)

This revision is highly significant: the Wartime Prices and Trade Board Orders specifically describe the Administrator's manuals as pricing manuals. As will be seen in subsequent chapters, the firms belonging to the industry organization from 1948 onwards always referred to their manuals as costing manuals. The revision of February 26, 1947 cited above had nothing to do with the regulations of the Wartime Prices and Trade Board.

Another meeting of the Advisory Cost Committee was held on March 12 and 13, 1947. The minutes are included in the evidence (Serials 24114-18 CPO). Again, manual sheets were checked and tables were revised, although the actual ceiling prices were not affected by any of these changes. Another meeting of the Committee was held on April 11, 1947. The minutes of this meeting include the following:

"Administrator's Manual 'B' has been completed and placed in the printers' hands."

The Administrator expressed his thanks to the Committee. The Committee was disbanded, in view of the suspension of price ceilings."

(Serial 24132 CPO)

Errors were found in the printed edition of Industry's Manual "B" which was distributed in June, 1947, and these errors were drawn to the attention of Hardy & Badden by Shipping Containers (Serials 21646-47 2 SPL). Hardy & Badden in a circular letter of July 7, 1947 called a meeting of the Advisory Committee for the morning of July 11, despite the previous disbanding of this Committee in April because of the suspension of price controls (Serial 24147 CPO). On July 7 F.C. Hayes wrote to all the corrugated carton manufacturers as follows:

"As a matter of record, we wish to point out that several errors have been discovered in the printed copy of Administrator's Manual B. Page 14, for example, appears to be in error, as well as the last line of Pages 41 and 47. Arrangements are being made with the printers to replace these pages with correct ones. We are merely drawing this to your attention in the meantime."

(Serial 21603 2SPL)

As a result 17 pages were reprinted (Serials 16195-96 SPB).

One of the arguments advanced by the parties was that the printed manual was "registered" with the Wartime Prices and Trade Board. The only evidence connected with this supposed registration is that under a covering letter of July 2, 1947, Mr. Hayes sent to Mr. Ronald Ritchie of the Wartime Prices and Trade Board's Supply Division "an official printed copy of Administrator's Manual B", which was in reality the book referred to in this report as Industry's Manual "B". Again on August 27, 1947 Mr. Hayes sent 13 corrected sheets and a covering letter to Mr. Ritchie.

The explanation of the activities of the Cost Committee in meeting after the suspension of price control, as stated by counsel for Bathurst and other companies, was that the Committee was meeting for the purpose of correcting errors which had crept into the printed version of Manual "B" and that they did so because it was not proper to have something incorrect in the hands of the administration. He argued that if price controls were reinstated the manual should be correct. He argued further that the manufacturers wanted Manual "B" for costing, and again it was desirable that there should be no errors. Counsel for Bathurst admitted, however, that at the time the manual was printed in early 1947 certain manufacturers and Mr. F.C. Hayes had in mind that it might be used after the war by those who wished to



estimate costs of cartons rapidly. For this latter reason some manufacturers may have contributed to the printing of it. Obviously he is referring to the printing of Industry's Manual "B", not to Administrator's Manual "B" (Hearing, pp. 676-85).

It should be noted that the Industry's Manual "B" differed from the Container Materials, Limited manual in that the latter was a pricing manual, which developed a price directly, whereas the Industry's Manual "B" laid out a series of "costs" for each step in the process of converting paperboard into cartons. Doubtless Mr. Hayes and the container manufacturers who contributed to the printing and distribution of Industry's Manual "B" were aware that the use by the container manufacturers of the C.M.L. pricing manual would have been illegal in view of the successful prosecution of the Container Materials case referred to in the last chapter. That the industry desired and intended that the manual compiled and distributed by it would not be identified as a pricing manual is shown in the evidence of Mr. Hayes:

"A. Well the Container Materials basis, if my memory serves me right, developed a price - there was no intermediate step. Under the Wartime Prices and Trade Board system we developed a cost; that is the first step, and to that you put on a markup which was set as a maximum of ten and that is your price. Now the industry for many years have been using the word price - price - price -- there is a great deal of objection to that - there is a saying 'a burned child dreads fire' so when anyone asks I say it is just a cost in there and both Manual A and B are cost manuals, they are not price manuals until the markup is placed on them.

Q. So then when the Wartime Prices and Trade Board Order refers to them as pricing manuals - that is a mistake?

A. That includes the ten per cent markup -- you have got a very delicate point there and I don't think it is worth anything --

Q. No -- but with respect to this change of pricing and costing - were they adapting some old Container Materials thing -- was that it or were they --

A. I was asking him or I think everybody was asking him to 'un-adapt' -- I don't know whether I would give Container Materials credit for the thing, but I asked them to get out from the use of the word price as far as Manual A or Manual B is concerned.



- Q. Except in Wartime Prices and Trade Board orders themselves?
- A. Or except on a page where there is markup mentioned - markup was established and it was handled as a different proposition -- it was thought at the time and it was quite possible, that Wartime Prices might have continued to use either Manual A or Manual B and to allow the company to change their relation of costs to profit by merely changing the markup and if that could have been done that was a very simple way to do it.
- Q. Well referring to that change in the terminology, what difference did it make during the period of price control?
- A. Not a bit.
- Q. Were you looking forward to the future there, then?
- A. Not necessarily - no -- I called a spade a spade.
- Q. In the industry at that time, was it intended that this Manual B would be the basis of pricing after the price control was ended?
- A. Not to my knowledge.
- Q. Why bother to make such a change?
- A. Why not? It is right.
- Q. You think it was right?
- A. I know it was right -- if you worked out a page of material costs - with the various components that make up the sheet - you come out to \$9.80 - now that is cost - and that is what that book is based on - that type of information.
- Q. Did you ever consider the alternative opinion that it is not cost at all, but it is a series of price components with one missing?
- A. I don't agree with that sir."

Mr. Hayes testified as to the reason for the continuing work of the Cost Committee on Industry's Manual "B" after decontrol:

- "Q. Yes - well then, if this committee -- after the suspension of price ceilings and after disbanding that was noted in the last document I showed you - met again and made further changes would that have anything to do with price control?
- A. It is quite possible - that was not the end of Wartime Prices and Trade Board - there was no thought in my mind that they might not go back to price ceilings - who can tell? I didn't know, ceilings were coming off and I didn't know that it might not come back -- that was quite understood at Ottawa -- everytime you take a price ceiling off things might zoom way up in the air and you are faced with putting it back on again subsequently. You just don't stop right there.
- Q. Well you stopped controlling prices there, did you not?
- A. But you didn't stop having the ability to control prices."

(Evidence, p. 4420)

On the other hand, Mr. H. Gee, Hinde & Dauch's representative on the Advisory Cost Committee, testified that the intention was to use Industry's Manual "B" after the period of decontrol had been completed.

- "Q. . . . why did the cost committee continue to make the arrangements to have the Manual B printed in the form of Exhibit 17 - whether it was just before decontrol or some time afterwards?
- A. Well I believe that must have been a decision of our management - or the management of other firms to go ahead and have this printed - after the work had been done.
- Q. Was it because they intended to use it after decontrol was over?
- A. Yes - I would think so.
- Q. Was it because there was an agreement agreeing to use it after decontrol was over?

A. I wouldn't say so - our own particular firm - we intended to use it.

Q. And you did in fact use it?

A. Yes."

(Evidence, pp. 983-84)

Similarly, Mr. A.M. Dunn, then President of Canadian Wirebound testified:

"Q. Why did you approve your company's participating in the printing and why were you prepared to pay for this Manual B after the end of price control?

A. Well that was part of this cost system -- these manuals were part of this cost system.

Q. Did you intend, then, to continue to use this manual after price control ended?

A. Sure - sure - sure."

(Evidence, pp. 5716-17)

The following extract from the testimony of J.A. Whealy of Corrugated Paper Box and Hilton clearly shows the intention of the container manufacturers to use Industry's Manual "B" for the purpose of pricing, although he denied that uniform pricing would result:

"Q. Well was it your intention when you purchased that manual to use it as a basis for pricing?

A. Well it was a form of yardstick or what have you and it was a good one, and I presume that we expected to use it.

Q. And were you aware that the other companies in the industry were also participating in the printing and the purchasing of that manual?

A. Yes.

Q. Did you anticipate that - as a result of the use of that manual - the prices in the industry would be uniform?

A. Not necessarily uniform.

Q. Not necessarily uniform?

A. No.

Q. Why?

A. Because every person could use it, as they saw fit.

Q. And do you know of no arrangements whereby they would all use it in the same way?

A. I know of no arrangements."

(Evidence, pp. 4752-53)

On the other hand, Mr. I. Good of Superior denied that the industry intended that Industry's Manual "B" would be used after price control (Evidence, p. 5035).

2. Organizational Work Resulting in Container  
Statistics Limited and Its Agreements  
with the Parties

By February, 1947 the industry was discussing plans for setting up an industry organization. Mr. Hayes put forward a carefully considered proposal some time prior to February 11, 1947 (Serials A27139-42 BAN). The internal evidence indicates that it had been the subject of considerable prior discussion for mention is made of discussion of the form of contract and alternative ways of calculating fees:

"1/4 of 1% of sales payable monthly has been discussed.  
\$0.02 per M square feet has been suggested."

(Serial A27140 BAN)

The document proposed the establishment of an organization to serve the industry alternatively with or without a research testing laboratory. Some of the functions proposed for this organization were: the collection and dissemination of statistics of sales, production, backlog of orders, price levels, and comparative data on industry costs; the revision and amending of Administrator's Pricing Manual "B"; and the compilation and issue of prefigured data based on Manual "B" to reduce individual clerical work.

It should be noted that even at this early stage a question had arisen in the mind of at least one official of one company in the

industry as to the legality of the compilation and use of a pricing manual Item I-F under the heading "Statistical" reads as follows:

"F - Revising and amending Administrators Pricing Manual 'B' as shown by changes in costs developed through performances."

(Serial A27140 BAN)

Opposite this clause Mr. Cockerill of Bathurst had written:

"Will the 'Pricing Manual' actually be acceptable to C'r. of Combines?"

Obviously this is a reference to the Commissioner of Combines. Another handwritten marginal note by Mr. Cockerill in connection with the form the organization should take was as follows:

"Probably better as a private corporation with manufacturers soliciting separately [Mr. Cockerill's underlining] for services. Thus avoiding indications of combine."

(Serial A27139 BAN)

This original proposal was revised and redrawn several times.

Mr. Hayes admitted that he was the person who developed and drew up the original proposal and that it had nothing to do with the Wartime Prices and Trade Board. He testified that it was circulated to some but not all of the manufacturers (Evidence, pp. 4426-35).

Mr. R.M. Fowler produced a draft agreement based upon the original proposal of Mr. Hayes and sent this draft proposal to Mr. Hayes on April 22, 1947 (Serials 9890-98 SBW). This first draft was accompanied by a letter from Mr. Fowler to Mr. Hayes in which Mr. Fowler gave his legal opinion regarding the validity of the proposed agreement:

" . . .

. . . On the legal aspects of the matter, I am prepared to give you a formal opinion covering the validity of the proposed agreement. It is my belief that the supply of statistical information and the research and other services contemplated are proper and as long as your operations are confined to the matters contemplated by the agreement your legal position should be fully defensible."

(Serials 9887-89 SBW)



Mr. Fowler's draft and covering letter received wide circulation among the manufacturers, other copies having been found as follows:

Hygrade	- Serials 19084-95 HCL
Gair	- Serials 2847-58 GCT
Hinde & Dauch	- Serials 13567-77 HDT
Martin-Hewitt	- Serials 20219-30 MHP

Indications are that a committee of manufacturers existed and met for the purpose of discussing these proposals for an industry organization. The indication is that Bathurst, through Mr. Weldon, was involved in this. The copy of Mr. Fowler's draft and covering letter sent to Gair was enclosed with a handwritten note initialled by Mr. Hayes and addressed to Mr. George Brown, then President of Gair. This note included the following:

" . . .

Weldon will be in Toronto Friday - do you think we should try and have a committee meeting with him present."

(Serial 2846 GCT)

Further reference to this committee and some indication of the persons who were consulting with each other in the formation of the industry organization, as well as the fact that the persons concerned were aware that a legal question might arise in connection with the proposed "costing" manual is revealed in the following extracts from a letter written by Mr. F.C. Hayes to Mr. A.M. Dunn of Canadian Wirebound on June 11, 1947:

" . . .

I realize that there are two major points to overcome, one being the legal end and the other the financial end, and the solving of one certainly would not solve the other, and it is immaterial to me which is attended to first.

. . .

I have spent considerable time on the Manual over the last three weeks and the possibilities on this are unlimited. I had in mind a complete hand book which would have sufficient information to allow each company to secure their costs with very little office personnel, and regardless of changes in board prices, adhesive prices, closure charges or manufacturing charges. Actually, I have proved to my own satisfaction that it is possible to secure all costs to

within 5 cents on both sheets and boxes with either none or a minimum of figuring. This, of course, will require very careful legal advice. I feel that it is merely the furnishing of ready records against a policy which has been individually established by each company. I would like an opportunity to explain this to yourself and the Committee at an early date. Actually, the above items probably only average about 20% of what I think the Institute could do. The rest is psychological, in being a common denominator through which legal information may be transmitted and confidence retained. I do not know whether the amount of confidence that we desire is present today, due, probably, to so many plans of expansion. Nevertheless, I feel that the information given by the Institute will actually be of more value when conditions are not what we would like. I may add, however, that it is the aim of the Institute to improve these conditions. I am enclosing a sheet of estimated operating expenses, which has been itemized under a high column, a low column and a blank column for your own use. This includes everything I could think of with the exception of my own self. I believe that Mr. Diven will bear me out that the amount recently mentioned was not my suggestion but rather that of Mr. Brown and Mr. Winchell.

. . . "

(Serials 2860-61 GCT)

In addition to the names mentioned above the name of Mr. C.E. Frohman Vice-President of Hinde & Dauch, U.S., was mentioned in the same letter from Mr. Hayes to Mr. A.M. Dunn of Canadian Wirebound:

" . . .

In order that you may realize the vast difference between one service and the other, I would like to give you my views which I have talked over with Mr. C. Frohman of Hinde & Dauch and had no difficulty in reaching full accord. . . .

. . . "

(Serials 2860-61 GCT)

The further interest of Bathurst in these arrangements is attested to by the following handwritten note attached to Serials 2860-61 GCT from F.C. Hayes to George Brown:

"George

I have checked with Weldon and he believes that the

sending of another lawyer representing them would only delay. He is quite content that Willoughby Shaver & McMillan redraft and then they will submit to Forsythe for legal opinion only. I concur.

Standard willing to sign if H. & D. & Gair satisfied.

F.C.H."

(Serial 2859 GCT)

A memorandum written by Mr. Charles E. Frohman, Vice-President of Hinde & Dauch, U.S., to L.F. Winchell, the Canadian General Manager of Hinde & Dauch, on May 21, 1947, which was found in the files of Crown Zellerbach, contained the following:

"I should like to discuss seriatim the letter from R. M. Fowler to F.C. Hayes dated April 22nd, 1947, and the first draft dated April 20th, 1947, of an agreement between manufacturers and Container Institute, Ltd. . . .

. . .

I am much interested in the second paragraph of Mr. Fowler's letter contained on page two 'as to the provisions dealing with statistical material'. Here is the heart of the whole matter, with which Mr. Fowler says he is not competent to form a judgment. Unless one understands the statistics and the nature and extent thereof, and the use to which they may be put and the form in which they are obtained, I do not see how any opinion or suggestion on this type of agreement can be put forth. Indeed, this should be checked very carefully. I shall comment a little more later on.

I don't think the publicizing of cost and price information is the escape from illegality, if any question of legality is involved, and I doubt that manufacturers generally in 'tailor-made' businesses such as the box business could give any effective publicity to the type of statistical information proposed in the draft. This publicity might even tend to the adoption of arbitrary costs or profit margins, which in my view are elements of unreasonableness in the fixing of prices. Certain statistical information should, of course, be made available to industry generally and probably to the Department of Commerce of the Government, but the items so publicized must be selected rather than complete. I would not favor the dissemination, even among manufacturers, of some of the information mentioned in

the draft, but, of course, I do not concur that such information mentioned in the draft should be solicited in the first place.

. . ."

(Exhibit 50, Serials A35134-38 BNG)

A second draft of the proposed agreement was dated June 16 1947 (Serials 2863-65 GCT). This draft, since it made no reference to a research and testing laboratory as proposed in the first draft, indicates that the idea of such a laboratory had been dropped.

A third draft of the agreement (Serial A27153-56 BAN) is in existence. Reference is made to this third draft in a letter from Mr. Hayes to R.L. Weldon of Bathurst on June 24, 1947:

"According to our recent conversation, the Committee of corrugated carton manufacturers and myself met for two days in Toronto on June 16th and 17th.

During the first day, the Committee redrafted the proposed agreement and discussed the estimated costs of the Institute and our discussions were concluded in a satisfactory manner.

During the second day the meeting was held with legal representatives of the Hinde & Dauch Paper Company, Gair Company of Canada Limited, Canadian Wirebound Boxes Limited and Corrugated Paper Box Company, and from this meeting, we have a third and, I hope, final draft of the agreement, which, I believe, is satisfactory to the firms represented by the Committee. A copy of this draft is attached.

. . ."

(Serial A27152 BAN)

By November 17, 1947 these negotiations concerning the form of the contract must have come to an end, for in a letter from Mr. Hayes to D.A. Hindle, then Managing Director of Martin Paper, dated November 17, 1947 Mr. Hayes said:

"Dear Dan

I expect to have a temporary office open in a few days and will inform you of the address & phone. In the meantime the above will reach me.



I am enclosing in duplicate the agreement. At your earliest convenience kindly have this signed and sealed on behalf of your company and return for completion at this end. The original will be returned to you.

Your fee as worked out is \$2200.00. Please insert in contract and initial. . ."

(Serial 8436 MPP)

Contracts were signed in November and December, 1947 by eight companies. All of these contracts were identical in terms, except for the amount of the fees. Each contract was made between Container Statistics, which was referred to as the Company, Frederick C. Hayes, who was in the contract called the party of the third part, and a particular shipping container firm which in the contract was referred to as a manufacturer. The following extracts indicate the character of the agreement arrived at by the contracts:

" . . .

1. The Company agrees to investigate, maintain and make available to the Manufacturer all relevant data pertaining to the manufacture of the products covered by this Agreement, the equipment for such manufacture, and new developments and uses for such products both within Canada and in other countries as it shall hereinafter be able to and may obtain.

2. It is understood that this Agreement shall cover the products known as

- (a) Corrugated sheets
- (b) Corrugated containers
- (c) Corrugated parts
- (d) Single faced corrugated sheets and rolls
- (e) Fibreboard sheets
- (f) Fibreboard containers
- (g) Fibreboard parts.

3. The Company will, if requested by the Manufacturer, supply such advice and information concerning the preparation of the standard costing methods and budgeting procedures as the Manufacturer may require.

4. For the purpose of assisting the Company in securing and maintaining its statistical information, the Manufacturer agrees to supply the following information:



(a) Immediately after the effective date of this Agreement -

- (1) The dollar and cent value of orders booked and not delivered;
- (2) The total square footage of orders booked and not delivered;
- (3) The dollar and cent value of orders invoiced during the preceding month;
- (4) The square footage of orders invoiced during the preceding month;

(b) After the expiry of the first month after the effective date of this Agreement and on the 15th and end of each month thereafter -

- (1) The dollar and cent value of orders invoiced during the preceding period;
- (2) The total square footage of orders invoiced during such period;
- (3) The dollar and cent value of all orders accepted during such period;
- (4) The total square footage of orders accepted during such period

And such reports shall be mailed to the Company not later than the third day following the period covered by the report.

(c) From time to time any other items of statistical information which the Manufacturer and the Company may hereafter agree will be of value to achieve the full purposes of this Agreement.

5. The Company undertakes to supply the Manufacturer with all necessary statistical forms for reporting to the Company the statistical information to be submitted by the Manufacturer under this Agreement.

6. The Manufacturer agrees that statistical information based on material submitted by him to the Company under this Agreement may be disseminated by the Company to other manufacturers from whom similar statistical material is made available to the Company for like dissemination and such other statistical information as may be available to the Company.

. . .

8. The Company agrees to study freight and express classifications, both domestic and export, and forwarding rates and to render assistance as may be required by the Manufacturer and within the knowledge of the scope of the ability of the Company so to provide for the dealing with and procuring advantages in freight rates and the speedy delivery of the products of the Manufacturer to their destination.

. . .

10. This Agreement shall be effective as of the date hereof and shall remain in force and effect for a period commencing at the date of execution and terminating on December 31st, 1948; provided, however, that this Agreement shall thereafter automatically continue in force from calendar year to calendar year unless notice of termination is given by either party in writing addressed to the other party at least three months prior to the beginning of the next ensuing calendar year.

. . ."

(Serials 12056-58 CBT)

The following were the eight companies that signed contracts in November and December, 1947:

Martin-Hewitt	- Serials 20231-35 MHP
Hinde & Dauch	- Serials 13657-61 HDT
Superior	- Serials 9911-15 SBW
Gair	- Serials 2924-28 GCT
Canadian Wirebound	- Serials 12056-60 CBT
Hendershot	- Serials 17974-78 HPH
Corrugated Paper Box	- Serials 24191-95 CPO
Martin Paper	- Return of Information - Exhibit 43

The following companies stated that they signed contracts, but supplied only undated copies to the Director:

Standard (or Dominion Containers) - (Return of Information - Exhibit 40).  
Wilson - (Return of Information - Exhibit 65).  
Maritime signed on July 1, 1948 (Return of Information - Exhibit 66).

In addition to the companies which signed the contracts with F. C. Hayes and Container Statistics, a number of companies did

not sign contracts with either of the above but paid substantial sums of money to F.C. Hayes or to Container Statistics for the purchase of Ready Reckoner cost manuals, or for the services of Mr. F.C. Hayes personally, or for some combination of these. The following, from the return of Kraft Containers, bears on the question of its relationship to Container Statistics and F.C. Hayes:

" . . .

24. The dates and amounts of all payments made by the company to Container Statistics Limited are set forth below:

<u>Date</u>	<u>Amount</u>
<u>1948</u>	
December 21st	\$1,600.00
<u>1949</u>	
August 2nd	1,250.00
<u>1950</u>	
December 21st	2,700.00
<u>1951</u>	
November 28th	3,000.00
<u>1952</u>	
December 11th	117.00

The foregoing first four amounts were paid for the purchase of Ready Reckoner Cost Manuals. The fifth amount was paid for extra sheets therefor.

. . .

26. The company has not made any payments to F.J. Hayes and/or P.S. Hayes. The dates and amounts of all payments made by the company to F.C. Hayes are set forth below:

<u>Date</u>	<u>Amount</u>
<u>1952</u>	
December 11th	\$10,000.00
<u>1953</u>	
July 17th	2,500.00
December 14th	2,840.00
<u>1954</u>	
July 8th	2,500.00
December 15th	2,500.00

The company has for some time retained the services of Mr. F.C. Hayes as consultant in connection with its shipping case problems. The foregoing payments represent

fees to Mr. F.C. Hayes for services rendered in that capacity. Of the \$10,000 paid on December 11th, 1952, \$5,000 was paid on behalf of Shipping Containers Limited and was recovered from the latter on December 15th, 1952.

. . .

29. The company is not, nor has it been at any time, a party to any agreements or contracts with Container Statistics Limited and/or F.C. Hayes. The purchase of Manuals referred to in paragraph 24 above was effected as occasion arose and not under contract; the work done by Mr. F.C. Hayes as consultant referred to in paragraph 26 above was undertaken under verbal arrangements as problems arose and not under contract.

. . ."

(Exhibit 38, pp. 7-8)

SHIPPING CONTAINERS' return included these answers:

" . . .

24. The dates and amounts of all payments made by the company to Container Statistics Limited are set forth below:

<u>Date</u>	<u>Amount</u>
<u>1948</u>	
December 17th	\$1,600.00
<u>1949</u>	
July 29th	1,250.00
<u>1950</u>	
December 19th	2,700.00
<u>1951</u>	
November 21st	3,000.00
<u>1952</u>	
December 12th	117.00

The foregoing first four amounts were paid for the purchase of Ready Reckoner Cost Manuals. The fifth amount was paid for extra sheets therefor.

. . .

26. The company has not made any payments to F.J. Hayes and/or P.S. Hayes. The dates and amounts of all payments made by the company to F.C. Hayes are set forth

below:

<u>Date</u>	<u>Amount</u>
<u>1953</u>	
July 16th	\$ 2,500.00
December 14th	2,680.00
<u>1954</u>	
July 6th	2,500.00
December 8th	2,500.00

The company has for some time retained the services of Mr. F.C. Hayes as consultant in connection with its shipping case problems. The foregoing payments as well as a further amount of \$5,000 paid on December 15th, 1952 to Kraft Containers Limited (which had previously paid the said amount to Mr. F.C. Hayes at the same time as its own fee of \$5,000) represent fees to Mr. F.C. Hayes for services rendered in that capacity.

. . .

29. The company is not, nor has it been at any time, a party to any agreements or contracts with Container Statistics Limited and/or F.C. Hayes. The purchase of Manuals referred to in paragraph 24 above was effected as occasion arose and not under contract; the work done by Mr. F.C. Hayes as consultant referred to in paragraph 26 above was undertaken under verbal arrangements as problems arose and not under contract.

. . ."

(Exhibit 37, pp. 11-12)

On the role played by Hygrade in relation to Container Statistics Limited or F.C. Hayes, the Statement of Evidence has the following to say:

"150.

HYGRADE replied that they were not a party to any contract or agreement but listed amounts paid to CONTAINER STATISTICS in 1951-3 for the purchase of the manuals and 1952-4 to F.C. Hayes for fees 'as Consultant in connection with Shipping Case problems'. This return was made in connection with Hygrade Containers Limited and the company was then required to submit a further return covering the operations of its predecessor Hygrade Corrugated Products Limited, which ceased operations on December 31, 1950.



Again there was no contract, but payments were made in January 1949 and 1950 to CONTAINER STATISTICS for manuals (Exhibit 23)."

(Statement of Evidence, Vol. I, p. 104)

It is clear that in the case of Hygrade the ostensible purchase of manuals was in fact intended as payment for other services of F.C. Hayes, for the evidence shows that considerable sums of money were paid to Container Statistics for manuals on dates which are clearly inconsistent with any need for the purchase of completely new sets of manuals. While Container Statistics issued new manuals in 1948 and 1950, only minor revisions were made in 1949 and 1951. Yet Hygrade, according to its return of information, made substantial payments in each of these years for manuals. So did Kraft Containers and Shipping Containers. The documentary evidence from the files of each of these three companies included a considerable volume of cost summaries made by F.C. Hayes which involved a good deal of detailed computation. Mr. Wilkins of Hygrade, asked why his company should have paid for manuals during years when no new manuals were issued and why Hygrade was not charged for other cost summaries which never became part of a manual, testified in part as follows:

- "Q. In Exhibit 23 which was the Return of Information made by your company by Mr. Wonnacott to the Director, we asked for details on your payments to Container Statistics Limited and to Mr. Hayes - and we got them in two instalments - one relating to the Hygrade Corrugated Company and the other one to the Hygrade Containers company -- and in the Hygrade Corrugated company you say the first payment in January 1949 was for 15 ready reckoner manuals at \$100.00 each -- to a total, of course, of \$1,500.00 -- now I suppose that this was the payment for the initial copy of the ready reckoner, was it -- in October 1948?
- A. So far as I can remember.
- Q. And then on January 3rd 1950 15 more ready reckoners at \$100.00 each less credit for old manual \$500.00 -- now what manual was this that you were buying on January 3rd 1950?
- A. I think it probably was the same one.
- Q. Same edition?
- A. I think so.

- Q. You mean that he took back from you your used copies and supplied you with 15 more and a credit for \$500.00?
- A. I think that could be right sir - but I am not too sure.
- Q. Was there a new manual put out in 1949?
- A. Not to my knowledge.
- Q. Were there some minor revisions made to a manual perhaps [put out] in 1948 and the whole thing reprinted on better paper?
- A. I don't remember the details.
- . . .
- Q. Well now -- when he was ostensibly charging you for new books - was that the extent of his services which he supplied to you?
- A. No sir.
- Q. Was that just a pretext - a way to pay him for his services without appearing to be buying anything but books?
- A. I wouldn't say so.
- Q. Well - for example, I am showing you here just one document which you received from him -- serial 19149 HCL - summary of costs and conversions to ready reckoner system - November 15th 1949 -- is that about the size of the manual - ready reckoner manual - that volume alone?
- A. No - I don't think so.
- Q. Is it about three quarters of the size?
- A. I couldn't say.
- Q. Well did he charge you for this?
- A. I don't remember.
- Q. Well then -- was this payment -- supposedly for books -- actually a payment for books and all sorts

of services as well?

A. I would say yes to that.

Q. Did you personally approve of these payments to Container Statistics or were you told by somebody else?

A. I approved them.

...

A. I was willing to pay Hayes so much a year -- I didn't care whether I got books or services -- I wanted the services - that is the main thing."

(Evidence, pp. 5480-84)

The testimony of F. C. Hayes was that the three companies, Shipping Containers, Kraft Containers and Hygrade had no different status with respect to his services than the companies which signed contracts with himself and Container Statistics, except that they paid him in a different way. This is shown in the following extract from Mr. Hayes's testimony:

"Q. Now what is the principal service you perform for these people -- I mean these ones that you service personally?

A. Well - I supply them with manuals.

Q. Do you buy the manuals from Container Statistics Limited?

A. Well -- let us say I take them from them.

Q. What do you do with the proceeds?

A. Well when there were any proceeds I put it into my salary.

Q. Well didn't you first put it into Container Statistics before you put it into your salary?

A. No -- I just took it as part of my salary - if I want half a dozen manuals, I go take them.

...

Q. And what else do you do for them?

A. Well I do a great many things for them -- I represent them in the Canadian Freight Association - I represent them on the Canadian Standards Association -- I represent them with the Dominion Agriculture Department on the poultry question - if they want any price lists made I make them out. I will do anything I think is ethical or legal."

(Evidence pp. 4493-94)

With respect to the services supplied to Kraft Containers and Shipping Containers and others, Mr. Hayes testified as follows:

"Q. And looking at it from that point of view - that qualitative point of view -- can you distinguish any different status of these two clients from the others - except the fact that they pay you in a different way -- that they are contracted to you in a different way?

A. None whatever.

Q. They are just exactly the same as the others?

A. Yes.

Q. And I take it that this applies to all your clients - Hygrade and the others?

A. Yes - they ask for services and they get it.

Q. And as to the services actually performed -- they have been of the same type?

A. Yes."

(Evidence, pp. 4545-46)

Furthermore, Mr. Hayes was of the opinion that his arrangements to act as consultant for Kraft Containers did not violate the spirit of the agreement between himself, Container Statistics and those firms which did sign contracts:

"Q. I say did you secure the agreement of the various clients - the various people who contracted with you - that it was O.K. for you to sell the ready reckoner to other people, Mr. Hayes?

A. No - no.

Q. I take it that you didn't feel that violated the spirit of the agreement?

A. No.

Q. And with respect to your arrangements to act as consultant for the Kraft people, I take it you didn't think that that violated the spirit of the agreement?

A. No I did not.

Q. And did your other clients know about this and agree it didn't violate the spirit of it?

A. They knew about it and they didn't disagree."

(Evidence, pp. 4530-31)

Mr. Weldon of Bathurst said that other firms knew of Hayes's arrangements with three non-member firms and did not object to these arrangements. He admitted he was aware that a manual went to all companies in the industry (Evidence, pp. 6941-43).

The relationship between other container manufacturing firms and Container Statistics or F.C. Hayes is dealt with in the following extracts from the Statement of Evidence:

"154. CANADIAN BOXES stated that they had entered into no agreement or contract with CONTAINER STATISTICS or F.C. Hayes, but that they 'subscribed to their consulting and statistical services at a fee of \$3,000 per year' (Exhibit 52).

155. Companies shown by the evidence to have received manuals from CONTAINER STATISTICS and to have engaged in the statistical interchange, but whose return of information stated they had no agreements or contracts with the company or F.C. Hayes, were ACME (Exhibit 71), CHAMPLAIN (Exhibit 41), DOMINION CORRUGATED (Exhibit 68), and HILTON (Exhibit 45). ACME lists payments to CONTAINER STATISTICS in each year from 1947 to 1955. DOMINION CORRUGATED lists payments from 1948 to 1952, the last one being in February 1952 for 'services for the year'. As the first payment was in February 1948, just after CONTAINER STATISTICS started, it is clear that these were payments in advance, so that the evidence is that DOMINION CORRUGATED paid for the



year 1952, but did not renew its subscription for 1953. The participation of CHAMPLAIN and HILTON was through management control by STANDARD and CORRUGATED PAPER respectively.

156. SHERBROOKE, which entered the industry at the end of 1952, arranged in mid-1953 to co-operate with the other manufacturers, as will appear later. . . ."

(Statement of Evidence, Vol. I, p. .

## CHAPTER IV

### INSTRUMENTS AND PRACTICES UNDER CONTAINER STATISTICS LIMITED

#### 1. The Manual of Container Statistics Limited

##### (a) Introduction

The previous chapter dealt to some extent with what we have called Industry's Manual "B" (Exhibit 17) which was based on Administrator's Manual "B" but differed from the latter in the addition of 100 pages of text and tables and also in the revision and alteration of certain parts of Administrator's Manual "B". That chapter also presented evidence of the intention of the parties in this inquiry as to the use to which this Industry's Manual "B" would be put in the period following the suspension of price control. F. C. Hayes had been instrumental in organizing the Cost Committee which approved the revisions, alterations, and additions which converted Administrator's Manual "B" into Industry's Manual "B". After the incorporation of Container Statistics Limited, the revision and distribution of Industry's Manual "B" was in the hands of that company and of its President, F. C. Hayes. It is of fundamental importance to understand the procedures outlined in this manual. (1)

##### (b) Essential Nature

The essential nature of Industry's Manual "B" is outlined in the following extract from the Statement of Evidence, in which Industry's Manual "B" is referred to as "the manual" and Administrator's Manual "B" is referred to as "Manual 'B' ".

- 
- (1). After the incorporation of Container Statistics Limited, Industry's "Manual 'B' " was sometimes called simply "the manual", sometimes "Container Statistics Manual", and sometimes "Ready Reckoner".

"216. The manual was in the form of a Ready Reckoner and was closely based upon Manual 'B'. It consisted of a series of 'cost' tables, which were actually price components in cents [1], increasing in most cases as the number of square feet of combined board required to make 1,000 containers increased. The tables fell into five main groups as follows:

Material factors,  
Conversion factors,  
Closure factors,  
Printing factors,  
Added Cost factors.

The manual contained a set of area tables and schedules of machine charges which had been carried over from Manual 'B'. The area tables gave the approximate area per 1,000 units of product of any given size. The machine charges were arranged by class of product. They applied on a per order basis regardless of the size of the individual order and were not incorporated into the unit price like the other manual factors (except in British Columbia, following the price increase of May 1954). They appeared as separate items on the invoices.

217. The various factor tables in the manual were set up according to the different specifications for corrugated products. For example, a separate material table was set up for each type of combined board that might be sold, based upon an estimated cost of the materials included. Thus for a box designed to carry approximately 20 pounds, a basic cost per thousand square feet was arrived at by calculating the cost to the shipping container manufacturer of 2,000 square feet .009 liner, half for the inner and half for the outer liner; of 1,520.3 square feet of corrugating medium, so as to allow for the extra area caused by the corrugators; of waste board created; of the adhesive used to attach the liners and corrugating medium; and, finally, the cost of twine. These basic costs were worked out for single-faced sheets, for double-faced sheets, and for double-wall sheets of appropriate board combinations (Serial 6533 CST). The values obtained were then applied to increments of area required to make 1,000 containers, and the table was set up so that by reference to the columns one could read at a glance the number of cents required to be charged for material of a given area. Thus, when a shipping

---

[1]. Mr. Forget, counsel for a number of the parties, objected that the Ready Reckoner gave a fairly accurate figure for the cost of making a box, that it left the mark-up above cost to the individual firm, and that it was therefore inaccurate to describe the "cost" tables as price components.

container having certain dimensions was specified, the pricing clerk could determine from the area table the number of square feet required to make 1,000 containers and by reference to the material table he could then determine the factor cost for material required to make 1,000 containers. Similarly, conversion tables showed the amount to be charged for the normal corrugating, slitting, scoring and other operations, all combined into one figure, involved in the manufacture of 1,000 boxes of different total areas, and these tables were supplied for the different weights of boxes and for standard (or regular lap-end) containers and for special containers which had irregular flaps or some other special design feature. Closure tables were provided for the operation involved in taping or otherwise closing the edges of the container blank to make it into the form of a rectangular tube, and these tables were calculated on the basis of the number of lineal inches of closure required, several separate tables being provided for differences in specifications. Printing tables were set up on the basis of the total area in the cartons, but provision was also made for the amount of printing involved and whether it was in one or two colours. Special converting operations such as prefolding panels under 5 inches, providing horizontal corrugations and the like, were the subject of separate added costs, and a special extra charge was involved, during all but the first part of the period, for small quantity orders. Other tables in the manual provided a method for 'costing' sheets, partitions and so forth. While these methods at first glance appear complicated, it is quite easy to follow the pricing procedure used by the participating companies through the price estimate sheets prepared by their pricing clerks. Whether or not these price estimating sheets were actually printed and arranged in the orderly manner shown in the following example, the computations were made in accordance therewith :

Outline of a Typical Price Estimate Sheet

Customer . . . . .	Item . . . . .
Size . . . . .	Area per M . . . . .
Style . . . . .	Quantity Ordered . . . . .
Printed . . . . .	Printing Units . . . . .

<u>Manual Factor</u>	Price Component (\$ per M Units)
Material	. . . . .
Conversion	. . . . .
Closure	. . . . .
Printing (if any)	. . . . .
Added Charges (if any)	. . . . .
Total	. . . . .
Mark-up [ This and the next two lines not found in the manuals ]	. . . . .
Selling Price	. . . . .

Selling Price [adjusted to nearest  
5 cents below]

.....

Machine Charge [per order]

.....

Whenever the area tables provided a figure mid-way between the increments shown in the cost tables, all price estimators used the next highest area. Similarly prices were always adjusted to the next lowest nickel. Thus, when competently used by different persons, the manual provided for any given specification an exactly identical price to the cent provided the same mark-up was applied to the manual total.

218. Three main issues of the pricing manual were prepared by Mr. Hayes in the period 1948-54. New issues were prepared and distributed to the industry at the time of each general price increase, except for those increases between December 1950 and July 1951. On these occasions, in lieu of preparing revised issues of the manual, prices were adjusted upwards by means of additional mark-ups, which were referred to as surcharges to the manual factors.

219. There were, for each issue of the manual, different editions each of which applied to a specific price zone or group of zones. These zones were as follows:

Newfoundland (after Confederation) ,  
Maritime Provinces,  
Ontario-Quebec,  
Manitoba,  
Saskatchewan - Zone 1,  
Saskatchewan - Zone 2,  
Alberta,  
British Columbia.

220. The first issue of the manual (hereinafter referred to as 'the 1948 issue') remained in effect until the latter half of 1950 when it was replaced by a revised issue (hereinafter referred to as 'the 1950 issue'). This revised issue remained in effect in the first six of the above-noted price zones until the fall of 1953 and in the other two zones, namely Alberta and British Columbia, until the spring of 1954. It was replaced by a further revised issue (hereinafter referred to as 'the 1953 - 1954 issue').



C. The 1948 Issue of the Manual

221. There were three different editions of this issue, applicable as follows:

1. Ontario, Quebec and the Maritimes;
2. Manitoba and Saskatchewan;
3. Alberta and British Columbia.

The western editions were, as stated above, brought into use in July 1948, and the Ontario-Quebec-Maritimes edition in October 1948. Also in October 1948 the material factors in Manitoba-Saskatchewan edition were revised upwards. Thus by the fall of 1948 the whole industry was operating under the CONTAINER STATISTICS pricing system. Some minor revisions, mainly in the added cost tables, were made in June 1949 (Serials 12178-78A CBT). No change was made at this time in the major factors in the manual, such as material and conversion. "

(Statement of Evidence, Vol.I, pp.155-57)

(c) Various Editions and Issues

Appendix III to this report gives a comparison of the various editions of the successive issues of the Container Statistics manuals. These appeared in the Statement of Evidence as Schedule II of Appendix II in Volume V. The Statement of Evidence says the following about the 1948 issue of the manual:

"222. It will be noted that the differences between the editions were mainly in the material factors, those for Manitoba-Saskatchewan being highest, Ontario-Quebec-Maritimes intermediate and Alberta-British Columbia lowest. The basic conversion factors, identical for the two western editions, were higher than for Ontario-Quebec-Maritimes. Slotting and assembly charges in respect of partitions and the die cut and single-faced sheet conversion factors were identical in all three editions, as were all remaining factors, that is printing, closure, added cost and machine charges.

223. The documents listed below are copies of the three editions :

1. Ontario-Quebec-Maritimes - Serials 5452-5581 CST.
2. Manitoba -Saskatchewan - Serials 5582-5667 CST;  
7804-86 MPP.
3. Alberta-British Columbia - Serials 5668-5710 CST;  
7804-86 MPP; 6746-51 CST."

(Statement of Evidence, Vol.I, pp.157-58)

The Statement of Evidence says the following about the 1950 issue of the manual :

"225. This issue of the manual was brought into use in Manitoba and Saskatchewan in July 1950 ; in Ontario, Quebec and the Atlantic Provinces in September 1950; and in Alberta and British Columbia in December 1950. There were again three editions, but they did not apply to the same zones as before. The editions applied as follows :

1. Ontario, Quebec, the Atlantic Provinces and British Columbia,
2. Manitoba and Saskatchewan,
3. Alberta.

It will be noted that the edition for the eastern price zones also applied to British Columbia, but there was one minor difference involving the small quantity charges, which will be dealt with below.

226. A comparison of the three editions is shown in Schedule II in Appendix II. Again, the principal differences between editions were mainly in the material factors, Alberta being highest, B. C. and Eastern Canada being lowest, and between them was Manitoba-Saskatchewan. This, of course, was merely in recognition of the price structure for container-board. Material factors in the Manitoba-Saskatchewan edition remained unchanged from those in the previous edition for all board combinations involving .009 and .016 calipers, whose Winnipeg prices had been brought into identity with Eastern Canada. Where .025 board was used, however, the material factors were increased in December 1950 and again in January 1951. To the Manitoba-Saskatchewan edition, factors for non-test, 400-pound test and 500-pound test double-wall material were added which had not been in before. Basic conversion factors were identical in all editions except that for Manitoba-Saskatchewan, where they were lower. The remaining factors, with the exception of the closure and small quantity charges, were identical in all three editions.

227. The documents listed below are copies of the three editions

1. Ontario-Quebec - Atlantic Provinces - British Columbia  
Serials 5992-6230 CST; 10375-10590 SBW; 9304-9579 C
2. Manitoba - Saskatchewan Serials 5845-5991 CST; 7768-7784-7803 MPP; 7130-7303 MPP; 8719-8959 HBL.
3. Alberta - Serials 5064-5227 CST; 7760-7 MPP; 25368-25611 MPA.

228. At the end of 1950 there was a general price increase in Eastern Canada, followed by a similar increase in Western Canada about the end of March 1951 (Schedule VI, Appendix II). No revision of the manual was made but Mr. Hayes advised the industry to increase all the manual factors by 5 per cent. This was the amount of a concurrent increase in containerboard prices, and hence material costs, and it was applied to all other manual factors as well. Towards the end of June 1951 another general increase in prices was made by the industry. Again there was no revision of the pricing manual, but Mr. Hayes advised the industry to increase all manual factors by 15 per cent, instead of 5 per cent as before. Thus an extra 10 per cent was added to material factors, over-compensating for an 8 per cent increase in board prices, and conversion and other factors were increased by the same percentage. An exception to this was in the Atlantic Provinces where the surcharge was fixed at 13 per cent instead of 15 per cent, thus coinciding pretty closely with the amount of the material cost increase of 8 per cent plus the earlier 5 per cent. However, this increase was also applied to conversion factors. "

(Statement of Evidence, Vol. I, pp.158-59)

The Statement of Evidence says the following about the 1953-54 issue of the manual :

"230. This issue was also in three different editions. It was brought into use in the fall of 1953 everywhere but Alberta and British Columbia, where it was postponed until May 1954. Again there was a change in the price zones to which the editions applied, with Manitoba-Saskatchewan being covered by the Eastern edition, and British Columbia again having a separate one. The editions were :

1. Ontario-Quebec - Atlantic Provinces and Manitoba and Saskatchewan.
2. Alberta.
3. British Columbia.

231. A comparison of the three editions appears in Schedule II in Appendix II. It will be noted that there were a few differences in some of the factors between the Manitoba-Saskatchewan and the East. These variations, with the exception of one in the material factors and those in small quantity charges, were in conversion. Some of them were introduced following the initial issue of the edition. However, the edition is substantially the same for all these zones and is accordingly being treated as one edition. Material factors

in the Alberta edition were higher and those in the British Columbia edition were lower than the East. All remaining factors, except machine charges, were identical in the Alberta and British Columbia editions, but were lower than in the Eastern edition. For B. C. the old schedule of machine charges which were on a per order basis was replaced by a new schedule of charges on a per M units basis.

232. The documents listed below are copies of the three editions :

1. Ontario-Quebec - Atlantic Provinces - Manitoba - Saskatchewan : Serials 37150-37407 2 GCT; 2CST 2-2 (96 pages); A14938-A15063 2MPP; A15069-81 2MPP.
2. Alberta : Serials 91268-91307 2CBV; 91310-91362 2CBV.
3. British Columbia : Serials 91222-91267 2CBV; 91308-91362 2CBV. "

(Statement of Evidence, Vol.I, p.159)

(d) Price Levels in the Different Pricing Regions

From the foregoing "cost" material from the manual one may calculate the prices which were in effect in the several pricing regions of Canada at any time during the period from October, 1948 to 1954 as long as one knows the mark-ups which were observed in these respective regions at such times. (The evidence on the existence of certain mark-ups in certain parts of Canada at various times is postponed to a later part of this chapter.)

To show the complete array of prices for all types of containers for all regions for all dates during the period with which this report is concerned is unnecessary. For illustrative purposes it will be sufficient to show the selling price per thousand containers for one type of container, which is described as follows :

"A Regular 200 Pound Test Single Wall Container . . . size 11 3/4" x 11 3/4" x 11 1/4"; Area 8000 Square Feet per 1000 Containers . . . [plain] "

Taking the "costings" from the 1948 issue of the Container Statistics Manual and the mark-ups which are known to have been in use in each of the regions of Canada at that time, the prices for one thousand of these containers are calculated to have been as follows :



<u>Region</u>	<u>Price</u> \$
Newfoundland	114.95
Maritimes	101.05
Ontario and Quebec	94.30
Manitoba	108.20
Saskatchewan - Zone 1	114.60
- Zone 2	116.20
Alberta	115.35
British Columbia	102.00

Source : Container Statistics Manual, 1948 issue.

In this period the Central Provinces had the lowest price for this type of container, Saskatchewan Zone 2 the highest, Alberta the second highest, closely followed by Newfoundland and Saskatchewan Zone 1. Prices in the other provinces occupied intermediate positions.

The situation in the period after May, 1954 calculated from the 1953-54 issue of the manual, was as follows:

<u>Region</u>	<u>Price</u> \$
Newfoundland	140.40
Maritimes	131.45
Ontario and Quebec	125.45
Manitoba	135.00
Saskatchewan - Zone 1	144.45
- Zone 2	146.60
Alberta	135.20
British Columbia	127.05

Source : Container Statistics Manual, 1953-54 issue.

Again in 1954 Ontario and Quebec had the lowest price for this container, the highest price was again in Saskatchewan Zone 2, the second highest in Saskatchewan Zone 1, and the third highest in Newfoundland. Prices in the other areas occupied intermediate positions.



(e) Small Quantity Upcharges

The Statement of Evidence contains the following explanation of small quantity upcharges :

"234. A feature of the CONTAINER STATISTICS pricing system which was initially introduced in Alberta and British Columbia at or about the time the 1948 issue of the pricing manual was taken into use was a system of upcharges for small quantity orders. These upcharges applied when the order area fell below 10,000 square feet. They were set up in the form of a scale of mark-up percentages which increased as the order area decreased. The scale of percentages, which apparently was revised either towards the end of 1948 or early in 1949, differed in each of the two provinces. The revised Alberta scale ranged from 15 per cent to 65 per cent and the revised British Columbia scale from 15 to 121 per cent.

235. About 1950 the system was revised and was introduced into the other price zones. Instead of mark-up percentages, the upcharges were set out in table form in the manual, showing the amount per order quantity to be added to the base price (i.e., the total of the manual factors plus the mark-up) to give the small quantity price per M units. In the Eastern price zones the upcharges applied when the order area fell below 20,000 square feet and in the West when it fell below 10,000. The maximum upcharge per M units was \$200 in all price zones except Alberta and British Columbia, where it was \$340. With the revision of the pricing manual in the fall of 1953 and the spring of 1954, the maximum upcharge was increased to \$230 in all zones except in Alberta and British Columbia where the old schedule of upcharges remained in effect (zone editions of the 1950 and 1953-54 issues of the pricing manual).

236. How to determine the correct area bracket in the small order tables was set out in a memorandum dated April 25, 1950, prepared by Mr. Hayes (Evidence pp.6170-1).

'When item area falls between area brackets on side of table, use next higher area. In this example area is 7292 - use 7500 column.

When the order quantity falls between order brackets, use lower bracket - 250 order, use 200 column.

Note that the extra costs received grow smaller as the quantity ordered increases - in this particular box when quantity reaches 3,000 no extra costs are added.

The above method applies to all orders of individual items, such as boxes, sheets, pads, partitions etc.

When order is for more than one part, such as a carton, liner and partition, each item takes the added costs based on its individual area and quantity. '

(Serials 11565-72 CBT) "

(Statement of Evidence, Vol. I, pp.159-60)

(f) Machine Charges

The Statement of Evidence contains the following explanation of machine charges :

"238. Reference has already been made to machine charges. These were a feature of the C. M. L. pricing system (Commissioner's Report, p.34) passed on down through Pricing Manuals 'A' and 'B' to the CONTAINER STATISTICS pricing system. What changes, if any, were made in these charges in adapting them into the Shipping Case Administrator's pricing manuals is not known. They were originally instituted as a charge for re-setting machines preparatory to getting the production of each order under way. They were set out in the CONTAINER STATISTICS pricing manual in schedule form and were uniform from price zone to price zone and from one issue of the manual to the other, except in the case of British Columbia where a variation was introduced in May 1954 (Schedule II in Appendix II).

239. As mentioned earlier, the charges were on a per order basis, that is, a specific charge was made against each order of one item of one size regardless of the quantity ordered. Thus an order for a regular plain container of one size took a machine charge of \$4.00 whether it was for 50 containers or 10,000 containers. A variation from this procedure was adopted in British Columbia with the price change of May 1954 when the machine charges were revised to enable them to be incorporated in the unit price of each item. "

(Statement of Evidence, Vol. I, pp.161-62)

2. The Compilation of the Manual and the Basis  
of its "Cost" Components

(a) Relation of Industry's Manual "B" to Administrator's Manual "B"

This section gives detailed evidence on the evolution of Industry's Manual "B" (which may fittingly be referred to as the Container Statistics manual) from Wartime Prices and Trade Board Manual "A" and Manual "B".

The following consists of extracts from an undated memorandum found in the files of Container Statistics :

" . . .

Acting on instructions of the Administrator of Shipping Cases, the industry established a Costing Committee to assist in the establishment of ceiling prices. This Committee, consisting of the most able and experienced costing men of the industry, and after spending a tremendous amount of time, compiled a report on the cost of manufacturing corrugated products.

This report was broken down into component costs, and also consisted of basic formulae which could be applied to the components. The formula, developed for material costs, could be applied to the basic material costs as of that moment, or to any subsequent basic material costs. If they were correct then, they are just as correct today.

Similarly, the formulae for labor or overhead can be applied with equal accuracy now as then.

The findings of this Committee became the basis of Administration Manuals A and B, authorized by order as the basis of establishment of ceiling prices by the use of the costs developed by the Manual plus a percentage markup established at 10%.

When the administration under W. P. T. B. ceased to exist, manufacturers continued to use Manual B for costing purposes. Some deviated from the formulae established, but soon found the results unsatisfactory, and returned to the basic formulae. There was not, nor is there now, any agreement written or implied, on the use of this Manual.

. . .

#### CONTAINER STATISTICS LIMITED.

This Company, operated by the former 'Administration [sic] of Shipping Cases', does the following functions :-

Material Costs : When given the costs of paperboard, adhesive twine, tape etc., by a manufacturer, will return to him his basic material costs as developed by the W. P. T. B. method, or if desired by any method the manufacturer desires.

Further, will develop these costs, which are given in per M. Sq. Ft. into tables, called Ready Reckoner Tables, which anyone estimating the cost of the material in any corrugated product can

secure rapidly and accurately. The tables are, in fact, nothing more than an extension of the multiplication tables familiar to all. Their use has, however, saved the users a great deal of time and money. The Company issues from time to time new tables on application from any subscriber whose basic material costs have changed.

Conversion Costs : When given the labor and overhead costs by a manufacturer, will return to him similar Ready Reckoner sheets which are secured through the W. P. T. B. formula, or with such deviations as the subscriber may desire.

In the case of smaller subscribers who may not have the complete cost information desirable, the company working on such information as is available may draw upon its own skill and knowledge, as well as information secured from other sources, both domestic and foreign, to recommend certain Ready Reckoner Conversion sheets for trial use. The subscriber is at liberty to use or not, or to ask for alterations after a trial period.

The subscriber, in the use of these tables, secures the area in Sq. Ft. of the product to the estimated, and adds result secured from the material sheet, the conversion sheet and such other component sheets as the product involves. The result of this addition represents an estimate of the total cost of the item.

The industry is faced with estimating the cost of a product before it is made. The Company does not contend that the estimate secured through the Ready Reckoner tables today will be exactly the same as the cost of the actual production next week. It does believe the average actual cost secured from several repeat orders for the same item will, when compared with the Ready Reckoner cost, be remarkably close."

(Serials 7089-93 CST)

(b) Arbitrary Factors Used in Administrator's Manuals "A" and "B"

Reports of the Cost Committee whose work resulted in Manuals "A" and "B" during the period of price control are in evidence as follows :

Report of November 1944	- Serials 19480-19507 KCH
	- Serials 22623-22651 MPH
Report of June-July 1945	- Serials 19528-19560 KCH
	- Serials 19015-19074 HCL
Report of November 1945	- Serials 22591-22622 MPH



The use of arbitrary cost factors in the compilation of these manuals is shown clearly in the last of these reports. The following extract from the Statement of Evidence deals with these arbitrary cost factors.

(In the course of this quotation, reference is made to "A" and "B" flutes. The corrugating medium is attached by means of adhesive to one or more linerboards with more or less undulations per lineal foot of combined board. If "A" flute is used, 1.53 to 1.55 square feet of corrugating medium are required per square foot of liner, whereas if "B" flute is used, the requirement is from 1.35 to 1.36 square feet of corrugating medium per square foot of liner.)

"204. . . . This last report summarizes the formulas decided upon for the calculation of material 'costs' for the different types of combined board and for the calculation of conversion 'costs' of 65-pound standard slotted containers, which at that time accounted for 73 per cent of the sales of KRAFT CONTAINERS. The importance of this 'grade of container had not changed from 1944, when such 'standard or regular lap-end container . . . constitutes the large majority of the total volume' for the industry (Serial 19507 KCH). While there were some minor modifications in the method of arriving at the basis for material and conversion between the time of the initial and the final reports, the methods basically remained unchanged and were dependent upon assumptions and agreements set forth in the initial reports. A few of the arbitrary factors involved were as follows :

Material

- a. Establishment of a take-up factor for corrugating material. This take-up factor was approximately the average for 'A' flute and all subsequent material tables were based upon this. No provision was made for the reduced take-up factor if 'B' flute were produced.
- b. The establishment of an arbitrary figure of 16 cents per M square feet for adhesive. This figure applied whatever adhesive was actually used by a particular company, although a great variety of adhesives were on the market and they varied in price.
- c. Establishment of an arbitrary waste factor at 8 per cent for 65-pound boxes and other varying amounts developed later for other specifications. Waste incurred by different plants, on different sizes of sheets, is a variable item.
- d. Establishment of a twine factor in material costs at fixed amounts for different specifications. Numerous systems of shipping were available including hand-bundling or



machine-bundling, with twine or wire or steel straps, on pallets or otherwise, all of which would be subject to varying costs.

### Conversion

a. Development of a standard charge per M square feet for direct labour, based upon the assumed use of a standard set of equipment. Direct labour costs vary between plants because of many factors. Chief among these factors are variations in wage rates in different localities, and variations in the machinery used at different plants.

b. Establishment of average overhead factors for indirect labour, factory overhead, selling expense and administration. Without any specific definitions of several of these terms, figures were obtained from ten plants to show their individual cost experience. The figures obtained showed a wide range of experience, the differences between the highest and lowest plants, expressed as a percentage of sales, being :

Indirect Labour	- 2.15% to 5.60%
Factory Overhead	- 6.24% to 10.80%
Selling Expense	- .96% to 6.03%
Administration	- 2.00% to 5.20%
All these items	- 16.20% to 26.60%

The four plants showing the lowest combined costs of these items and the one showing the highest were then dropped from the picture and an arithmetical average of the combined costs of the other five, expressed as a percentage of direct labour, was adopted as the standard cost.

205. These are just a few of the arbitrary factors, clearly set out in the reports cited, which were involved in the fundamental principles of the so-called costing system. When the manual itself came to be developed and tables made for specifications other than 65-pound standard slotted containers, the number of arbitrary factors was multiplied. Differentials were established for conversion charges on other types of boxes, despite the fact that the overhead cost factors averaged to arrive at a factor applied to the whole of the business of the plants and not just to 65-pound boxes. Closure was based upon a given type of cambric tape, ignoring the fact that some containers were stitched and others used a variety of tapes other than cambric. An arbitrary formula for printing had to be developed, and so forth. Examination of the reports and of the manuals makes this clear, and it need not be laboured further.

206. That the reports became the basis of manual 'B' is clear from the copy of this manual preserved by Mr. Hayes at his office, in which

he had inserted a memorandum explaining it. This memorandum concludes with the following :

'All costs used in the establishment of these ceiling prices were the result of an extended and extensive study by a committee of persons skilled in this art. The results reported and recommended by the committee were thoroughly studied by this Administration and were considered to be an accurate presentation.'

. . . "

(Serials 5228-29 CST)

(Statement of Evidence, Vol.IV, pp.821-22)

(c) Extent of Accuracy of the "Costs" in Container Statistics Manuals

The following extract from Mr. Hayes's "THIRD REPORT ON 1953 CONVERSION" (Serials 6945-61 CST), written about September, 1953, contains the following:

". . .

CONTAINERS STANDARD This subject, covering such a large proportion of the total output, requires more investigation and study than any other item. When the W. P. T. B. Cost Committee developed Manual 'B', they concentrated on accurate costs on 65 lb. boxes, as they accounted for about 75% of corrugated production. Any other box grades were the result of adding a percentage to the 65 lb. costs. This percentage varied, the highest being for double wall boxes at 65 lb. table plus 50%. Improvements in equipment and particularly changes in material have narrowed the production costs between 65 lb. and the 20, 40, 90 and 120 lb., and to some extent on the double wall. We feel that this change in cost should be reflected in the various cost tables, and as a further reason, the introduction of extra strength 20 lb. and 40 lb. boxes and the possibility of 42 lb. board, will develop a situation where the current higher costs applied to a lower grade box will develop a total cost higher than the next better grade would be. In making such a change, we have been reminded that the overall return to the boxmaker must not be reduced, but rather increased, and based on such information as we have, the following is our recommendation:

. . . "

(Serial 6949 CST)

The foregoing indicates that there had been changes in the cost of producing various types of box and that the methodology used by the Wartime Prices and Trade Board Cost Committee was divorced from the economic realities of the period in which Mr. Hayes wrote this memorandum. Note Mr. Hayes's suggestion that any revisions contemplated in the manual should increase the overall return to the boxmaker: a manual presenting actual costs would not be concerned with figures designed to give any return to the boxmaker, let alone to increase it. The obvious inference is that the figures in the manuals were components of price.

The following excerpt from the testimony of Mr. Hayes makes reference to a document called "SUMMARY OF COSTS AND CONVERSION TO READY RECKONER SYSTEM Nov. 15 - 1949", which Mr. Hayes circulated to a number of companies and which came to the attention of their principal officers. This report was found in the files of many companies. It was found in the files of Corrugated Paper Box (Serials 23992-24046 CPO), Hygrade (Serials 19149-203 HCL), Hilton (Serials 9189-9243 HBL), Bathurst (Serials 15004-58 BAM), Standard (Serials 16322-76 SPB), Canadian Wirebound (Serials 11403-57 CBT), Hinde & Dauch (Serials 13770-824 HDT), Gair (Serials 3242-96 GCT), and Container Statistics (Serials 5711-67 CST). Mr. Hayes's testimony about this cost summary, its supplements and related documents, was in part as follows :

"Q. Well now do I understand that you say that you had secured actual costs from them?

A. From whom?

Q. From the manufacturers.

A. Yes -- some.

Q. And having obtained the actual costs from them you now made up this summary?

A. That is correct.

Q. And having done that you submitted it back to them and then received a flood of suggested changes?

A. I didn't say that the changes were for them -- the changes were made in all the companies, like Maritime.

Q. Would it be correct to say, Mr. Hayes, that when you use the term costs what you actually mean is price less markup rather than the actual historical experience of costs in the various companies ?

A. No I was after costs in this case.

. . .

Q. Why didn't you adopt a new manual around this time?

A. Well I don't know, it may be that possibly we did.

Q. No, the next manual was September, 1950.

A. September 1950?

Q. Yes -- you had established that there were all kinds of reasons for increasing costs and you sent out and told everybody so -- can you recall in the light of that why no new manual was actually adopted?

A. No I don't know why the manual was not adopted -- all I know is that probably 90 per cent of the information or suggestion that were made in that collection of evidence never was acted upon.

Q. What sort of thing are you referring to -- are you thinking, for example, of the table of combined small order and machine charges and discount and all that?

A. That is one that was never acted upon -- nobody ever adopted that -- there was one of them here -- wait a minute let us see --

Q. Yes --

A. A great deal of the printing information was never acted upon.

Q. Do you say that that part of this study resulted from things which had been given to you by the companies about the savings that they were experiencing in shipping large orders and the actual costs they were incurring in printing and so forth -- or was this just a scheme initiated by yourself?

A. Well let us take printing -- starting at page 10, I think anyone with any degree of intelligence could read pages 10 on and could follow exactly what I mean -- the costing that I followed -- I couldn't explain it any better than it is written down.

Q. So that the situation so far as you are concerned is that they did give you this information?

A. Yes.

Q. And arising out of it you made proposals to them in this report?

A. I made the summary.

Q. All right you made a summary in this report of factual information?

A. Yes.

Q. And you say they never adopted it?

A. No -- parts of it were adopted and parts of it were not -- parts were probably adopted with changes.

Q. In the light of that then I would like to know why you insist that the actual manual was a cost manual?

A. Because I think it is based on the record of costs obtainable".

(Evidence, pp.6129-32)

The following extract from the testimony of Mr. Diven of Canadian Wirebound also bears on the relationship of the "Costs" in the manual to actual costs :

"Q. And what do you mean when you say that you asked Mr. Hayes to help you to arrive at a cost?

A. Through the cost manual - we were costing that particular job in the proper way.

Q. What do you mean by that - pricing it?

A. Costing it, sir.

Q. Well how do you mean, costing it - would you explain what you mean by costing?

A. Yes. We arrive at the cost of any article that we sell through the manual - that takes in material, conversion, and any special steps in the manufacture of that particular article and then add a mark-up on top of that which gives us our price.

Q. Yes, and that is what you mean when you say costing it?

A. Yes.



Q. Well now, does your company have an internal costing system of its own, which is based upon what it actually spends in producing it?

A. Yes.

Q. Who is in charge of that?

A. You are speaking of today or then ?

Q. I am speaking about Canadian Wirebound Boxes?

A. Mr. Max Sutcliffe.

Q. How long was he with the company - I mean just in general terms?

A. Well, he is with the company 28 years.

Q. And does he have any assistance in the way of a cost department?

A. Oh yes.

Q. About how many people are involved in that?

A. Ten or twelve, possibly.

Q. And this is speaking of the Canadian Wirebound period - all the time?

A. Yes.

Q. And did you find it to be an efficient group?

A. Yes.

Q. What was the function of the cost department - what did it do?

A. They checked the cost of raw materials - added to that the cost of conversion - plus the burden - plus delivery charges and any other costs that went into the thing - collated them - not only as a group operationally - but as for individual orders, to determine whether or not we were making any money on individual orders and could collate the orders.

Q. When you had a case like this box with a small panel, did you ask these people about costs?

A. Yes of course.

Q. And what did you find?

A. Well we found different things - we found sometimes that we were losing money in selling it at manual costs.

Q. Well then, what further assistance would Mr. Hayes be able to give you in respect to the cost of it?

A. He was only able to tell us whether or not we were using the cost manual in the proper sense - and when these occasions would arise and our own costing department would prove that we were losing money, I would check with Mr. Hayes to see that we were costing that particular item in the proper manner through his manual.

Q. Would you explain for us how you distinguish between the question of finding out from your own people what your actual costs were and finding out from Mr. Hayes what the manual would say were costs - how did you distinguish that from checking with Mr. Hayes to find out whether you were pricing the thing right - how did you make distinction between price and cost in that context?

A. The price is the figure at which we sell to a customer - cost is our own internal cost upon a given article.

Q. Well now, could you find anything out from Mr. Hayes about your costs then?

A. We could find out from Mr. Hayes if, in the general system of using the cost manual - that it was being used in the proper manner.

Q. Is it not merely that you were finding out from Mr. Hayes whether you were applying the price components correctly?

A. I wouldn't say so.

Q. Well how did you distinguish it - this is a crucial point in this case that we would like to be able to understand.

A. I don't get what you are driving at.

Q. Well, you say that you make a check with your own cost department and you find out what your actual costs would be to make a certain kind of box?

A. Yes.

Q. Then you go to Mr. Hayes and you ask him whether you are using the manual correctly and you say that that is checking on costs -- well, to my thinking that is checking on the various components that go into making up a price and yet you insist it is checking on costs and I would like to know just how you make the distinction here?

A. These figures were arrived at through this cost committee - and while for the most part - machinery, equipment and so forth is identical throughout the industry - there are some differences - and in these cases where we found out that the cost manual was showing us red figures, we upped our charges.

Q. Well is that as much as you care to comment on how you make this distinction between costs and prices?

A. Well I don't know that I can add any more.

Q. Well that is fine -- we want your view -- now, in view of this cost department that you have, just what did Mr. Hayes and Contain Statistics add to your knowledge of costs then -- within your own company?

A. Not a great deal."

(Evidence pp.1198-1202)

Further evidence that the manual "costs" were not consistent with the actual cost experience is shown in a document written by Mr. Bai of Hinde & Dauch on May 4, 1948 to Mr. M. H. McArthur of that company (Serials 13715-19 HDT). This deals with the topics appearing in "TENTATIVE AGENDA FOR MEETING THURSDAY MAY 6th ROYAL YORK HOTEL. DINING ROOM B, 10 A. M." circulated by Mr. Hayes (Serial 13714 HDT). The latter had included the following item :

" . . .

C. COSTS

1. Question of costs in relation to discounts to sales agents on single faced rolls.
2. Question of costs in relation to 5% two car discount.
3. Question of cost in relation to machine charges.
4. Question of costs in relation to Panels under 5" in two or three piece Lamberts.
5. Question of costs in relation to 3½% one car discount on 025-009-025 or 025-009-016 where total square feet is 120, 000 or over.
6. Question of effect of freight increase on costs.

. . ."

(Serial 13714 HDT)

The comments written by Mr. Baird on these topics as quoted below, show that from Hinde & Dauch's point of view the manual "costings" are unrealistic : an additional  $1\frac{1}{2}$  per cent discount on a second carload is not related to any additional savings in cost as compared with a single-carload order; machine charges are inadequate to cover the costs of setting-up for small orders; added charges provided by the manual for folding, taping, and stitching boxes with a panel less than five inches are not necessary on "lamberts" of this size;  $3\frac{1}{2}$  per cent discount which is given only on orders of 160,000 square feet (one carload) could be extended downwards to orders of 120,000 sq. ft.; average freight rates for the industry are arbitrary.

". . .

### C. COSTS

#### 1. Question of costs in relation to discounts to Sales Agents on single faced rolls.

We do not seem to be affected by this specific question as our rolls are sold by our own sales organization. We sell to Ratcliff Paper, who are jobbers, at regular list prices (100 roll quantities) and no commission is paid on these sales.

However, it is a fact that our profit position on single-face does not compare favourably with other suppliers. Our equipment is antiquated and we have a peculiar labour situation in this Department.

#### 2. Question of costs in relation to 5% two car discounts

Other than the control by Machine Charges, there is no provision in our price manual for adjusting prices according to the quantity in individual runs. It is proved by actual costs, however, that maximum efficiency is reached on orders of 5,000 units or over. Labour costs only on 250 boxes compared with 5,000 boxes are in the ratio 4 to 1. On carload quantities there is a definite saving in freight cost but based on cost it is doubtful if there is any advantage in running two cars over one car. The original 1-1/2% additional discount for two cars was probably adopted as a sales inducement.

#### 3. Question of cost in relation to Machine Charges

This question, as most of the others, is debatable and results vary from plant to plant. Machine charges do not recover for

us the cost of setting up, but on runs of 1,000 or more we possibly pick up on feed and speed of operation what other plants might gain on a faster set-up.

It is a weakness in our price manual that no provision is made to recover the costs involved in setting-up for small runs where the time for set-up may be as long as the actual run itself.

4. Question of costs in relation to panels under 5"  
in two or three piece lamberts

The price manual provides an extra charge for folding and taping or stitching boxes with a panel less than 5". Harry Gee advises that a good cost basis on lamberts is difficult to establish as the volume is small and usually a miscellaneous crew is assigned to a lambert job. He is of the opinion, however, that we do not need to make an extra charge where lamberts have a panel less than 5" as our lamberts are run on a tube taper. In plants where lamberts are taped by hand the extra charge might be required.

5. Question of costs in relation to  $3\frac{1}{2}\%$  one car discount on  
.025-009-025 or .025-009-016 where total square feet is  
120,000 or over

Since maximum efficiency of operation is reached on runs of 5,000 or over we could, theoretically at least, give  $3\frac{1}{2}\%$  discount on 120,000 square feet of these boards as well as on the present basis of 160,000 square feet. The important point here is to have carload weight and 120,000 square feet would give us this minimum.

6. Question of effect of freight increase on costs

Our average freight cost for 1947 was --

Toronto (Corr.)	\$3.93 per ton
Toronto (Fibre)	\$3.16 " "
Montreal (Corr.)	\$3.45 " "

The original price manual (from memory) included an average freight cost for the industry of 25¢ per 1,000 square feet, or around \$2.50 per ton. A rate of 32¢ is contemplated plus the recent increase of 21%, or 39¢ per 1,000 square feet.

Assuming 200# to be the average weight per 1,000 square feet



of board, this is equivalent to \$3.90 per ton. Obviously, any increase in freight rates is an increase in our costs, but the method of arriving at the average rate for the industry must be speculative and arbitrary.

. . . "

(Serials 13715-19 HDT)

(d) The Composition and Functions of the Industry's Cost Committee

Oral evidence establishes the very limited composition and functions of the industry Cost Committee which succeeded the Cost Committee under the Wartime Prices and Trade Board.

Mr. Gee of Hinde & Dauch testified that the members of this Committee were from Hinde & Dauch, Corrugated Paper Box, Gair, and Canadian Wirebound (Evidence, pp.994-95). Mr. M. Sutcliffe of Canadian Wirebound testified that the membership was comprised of himself representing Canadian Wirebound, Mr. Gee of Hinde & Dauch, Mr. Inman of Gair, Mr. Ireland of Corrugated Paper Box, Mr. Swanson of Kraft Containers, and possibly also of Messrs. Young of Kraft Containers, Saunders of Hygrade, and P. Cook of Corrugated Paper Box (Evidence, pp.2019-20). Mr. Gee testified that the Committee held very few meetings after Mr. Hayes had formed Container Statistics Limited and brought it into operation, and that the Committee had not met for two or three years prior to 1956 (Evidence, pp.1006-07).

Further oral evidence indicates that the functions of the Cost Committee had been very limited, in fact negligible, so far as the preparation of the Container Statistics Ready Reckoner was concerned. This is most clearly shown in the oral evidence of Mr. Hayes, although it is confirmed in some particulars by other witnesses as well. Mr. Hayes, shown his letter of April 8, 1948 (Serial 13700 HDT) asking the assistance of Messrs. Gee, Ireland, Sutcliffe and Inman, testified as follows:

"Q. And did those four people have some particular function to perform in the Container Statistics set-up?

A. They were members of the cost committee - among others.

Q. By cost committee do you mean the old cost committee under the Wartime Prices and Trade Board?

A. Yes - they are the cost men in their respective companies.

Q. And did that continue as a cost committee into the Container Statistics days ?

A. No - I believe I said yesterday we had one or two meetings and it was decided not to proceed along those lines.

Q. I see -- you started off that way, but you dropped it ?

A. Yes. That's right.

Q. Do you remember when you dropped it ?

A. Well I would say it was quite early - without looking it up I wouldn't say the exact date, but I wouldn't think it ran much past 1948.

Q. I see -- by the time that that cost committee had discontinued, was the basic set-up of the manual completed ?

A. I don't recall. The cost committee had practically nothing to do with the formation of the manual.

Q. What did they do when they were functioning? I want to make it quite clear on the record Mr. Hayes that I mean, of course, after the end of price control and after that summer when they were revising Manual B - the summer of 1947?

A. Well I think at that time we were -- we had thought that we might, in order to get certain things out in a hurry, such as material sheets - we would separate the work around among the various plants but that was never done and I really don't think that the cost committee did anything -- this so-called cost committee -- these four men -- actually did anything for Container Statistics Limited."

(Evidence, pp.4625-26)

The evidence of Mr. Sutcliffe of Canadian Wirebound indicates that on occasion the Cost Committee did not meet, but approval of changes in the manual was obtained without a meeting. On occasions when approval could not be obtained in this manner, the Cost Committee met and arrived at a consensus of opinion.

"Q. Well now - let us stick to the question of the investigation and approval of changes in the manual -- now I want to know was it usual -- was it the general rule, that the cost committee met and investigated and approved these changes, or was it not ?

A. You say did the cost committee meet - and I said -- and I still insist Mr. Gascoigne, that the cost committee did meet - yes -- on a few occasions but still on a number of the changes in the manual the cost committee did not meet, that is the difference.

Q. Well now that is all right -- I appreciate that - but I am trying to get at this -- what did you do -- did the cost committee investigate and approve without meeting ?

A. We may have done that.

Q. And how did this happen -- what were the mechanics ?

A. After supplying data from our plant to Mr. Hayes - in some cases information could have been sent back to us for approval - before being adopted in the manual.

Q. Do you mean by that, that the information was sent back to you?

A. Yes.

Q. When you say 'could have' - you mean 'was' do you?

A. Not in each case - no.

Q. I wish you would try to be more precise --

A. In some instances it was sent back to us.

Q. And what happened then?

A. We would check the proposed change - with our factory costs, and if we were in agreement, we would advise Mr. Hayes.

Q. And if you were in agreement and everybody was in agreement - would the manual change be adopted then ?

A. Yes.

Q. And if you were not in agreement - what happened then ?

A. Well [if] we weren't in agreement - then I would say the cost committee could have got together to discuss the situation.

Q. Then did they have to arrive at a consensus of opinion before the change could be adopted ?

A. I don't know if we had to or not - but we certainly did."

(Evidence, pp.2017-18)

(e) Mr. Hayes's Continuing Reliance on Cost Information from a  
Restricted Number of Firms

Because Administrator's Manuals "A" and "B" had been based on a study of the costs of only ten firms, of which the costs of only five were used, it is clear that they were not representative of the cost structure of the whole industry. But the following testimony of Mr. Hayes indicates that under the regime of Container Statistics Limited he relied on cost information from an even more restricted number of firms :

"Q. Well at the times of manual revisions after this date [summer of 1947] and up to the present - you follow me ?

A. Yes.

Q. To whom have you gone for cost information, prior to putting revisions out?

A. Well I have gone for a great deal to all these four men mentioned here - in that letter.

Q. Yes?

A. And also to Bathurst - that would include Kraft and Shipping; I have received some cost figures from Standard.

Q. Do you rely on some cost figures more than others?

A. Yes.

Q. And on which ones do you rely more?

A. Well I rely more on the figures from Hinde and Dauch, Bathurst and perhaps -- well Canadian Wirebound is now Bathurst.

Q. What about Corrugated ?

A. Yes -- at the time when they were operating -- Mr. Ireland is a very well-versed cost man.

Q. Did you find that the cost figures supplied by these four Toronto companies were similar ?

A. They were similar.

Q. Quite close together ?

A. Fairly close.

Q. And were they, in turn, as a group similar to the Bathurst ones ?

A. I didn't have Bathurst costs at that time and I don't think I have made a comparison of each company against the other since I have got Bathurst.

Q. When you say that -- when do you mean ? When did you start getting the Bathurst figures ?

A. After I had become a consultant for them.

Q. When was that ?

A. I don't recall the date -- three years ago I would say

. . .

A. The first manual change, as I believe I said, was based on - mainly Hinde and Dauch Paper Company sales and the third and fourth were based on Bathurst costs.

Q. Was that the 1953 one and the 1954 one ?

A. Well you have one in 1947 and you have another -- that was subject to five and fifteen per cent markup - the next one was based on Bathurst and the one after that was based on Bathurst.

Q. Well now these dates are a little bit mixed Mr. Hayes --

A. Yes.

Q. They really are --

A. Yes -- if you allow me to check - in respect of the Bathurst company - the conversion tables, I believe, in late September or early October of 1953, and again in March of 1955 - those two costs were based on information received from and after consultation with the Bathurst company.

Q. And prior to that what do you say they were based on -- there was one in 1950 and there was one in 1948 ?



A. There was one in October 1948 and that was based on Hinde and Dauch Paper Company -- there was one in September 1950 that I am somewhat vague on and there was one in December 1950 which was the 5 per cent -- there was no change in the manual itself.

Q. In which?

A. In December.

Q. December 1950?

A. Yes.

Q. Yes -- and the one in September 1950 was the real - the complete revision, is that the one you are somewhat vague about?

A. Yes I am vague about that one. . . "

(Evidence, pp.4626-30)

(f) Conclusions

From the evidence cited in subsections (a) to (e) it is clear to the Commission that the "costings" from Container Statistics Ready Reckoner were never truly representative of the costs of the industry. The costings contained in Administrator's Manual "B" were obtained from ten firms, the cost figures of certain of the firms were rejected and the components of Administrator's Manual "B" were calculated from the remainder. Administrator's Manual "B" became the basis of Industry's Manual "B". The wartime Costing Committee under the Administrator of Shipping Cases was replaced by an industry Cost Committee after the suspension of price control and this consisted principally of four men, one from each of Gair, Hinde & Dauch, Corrugated Paper Box and Canadian Wirebound. But this Cost Committee had very little to do with the compilation of the costs which went into Industry's Manual "B". Much of the cost material used in Industry's Manual "B" was gathered in an ad hoc manner by Mr. Hayes from a restricted number of companies, sometimes from one or two companies only. On a number of occasions the changes in the manual were approved without this Cost Committee's actually having met. On occasion the Cost Committee investigated and approved without meeting. On other occasions when proposed changes in the manual had been circulated by Hayes and the members were not in agreement, the Cost Committee would meet and discuss the problems involved. The evidence shows that the firms associated with Container Statistics Limited arrived at a consensus of opinion on the changes to be adopted in the manual. Administrator's Manual "B", which furnished the method on which the Container Statistics Ready Reckoner was based, contained many arbitrary

assumptions. Finally, the Commission understands there were very great changes in the equipment of the corrugated container industry in the years from 1947 to 1955. Its machinery became wider and faster and the rate of new investment in plant and machinery greatly exceeded the growth in the cost of labour. This is shown to be true for the United States in the following extract from an article appearing in Fibre Containers and Paperboard Mills, August 1955, written by H. J. Bettendorf, President and General Manager, Board Products Publishing Company, Chicago, Illinois, the firm which published this magazine :

"The corrugated growth is seen in the table in the number of corrugators operated, this number in 1955 standing 10% higher than in 1947, but it is more significant that the total inches of width of these corrugators in 1955 was nearly 21% higher than in 1947. A further very important factor, not indicated directly in the table, is that corrugators run faster today, the newer ones at speeds up to 616 ft. per minute, as compared with speeds of 300 to 350 ft. per minute a few years back. The changed picture is seen for corrugated, in that the average production of 221,000 M. Sq. Ft. per plant in 1947 increased to 234,000 M. Sq. Ft. in 1954; the average production per machine operated increased from 161,000 M. Sq. Ft. in 1947 to 199,000 M. Sq. Ft. in 1954 : and the average production per inch of machine width increased from 2,300 M. Sq. Ft. in 1947 to 2,620 M. Sq. Ft. in 1954. At the same time, the number of corrugators operated per plant dropped from 1.37 in 1947 to 1.13 in 1955. Therefore, a greater number of plants operated with less corrugators of wider width and higher speed per plant so as to produce 6% more material per plant, about 24% more material per machine, and about 14% more material per inch of width.

Investment and employment continued to grow, in keeping with the growth of the industry. It is of interest though that, since 1943, investment grew 96% up to 1954, while employment increased about 45%, indicating that the rate of investment in the average plant is growing at more than double the rate of employment; so that the conclusion is that it takes much more investment per employee to operate a corrugated box plant today."

While no evidence of developments in Canada is before the Commission, we consider that because of the close relationship which exists between many Canadian companies and American companies with which they are associated, similar trends have almost certainly appeared in this country.

This technological change would, of course, render all the more obsolete the arbitrary assumptions upon which Administrator's Manual "B"

and later Industry's Manual "B" were based.

3. The Method of Revision of the Manual

There is considerable evidence to indicate that from time to time there were meetings of the firms associated with Container Statistics Limited or F. C. Hayes which were held for the purpose of discussing proposed revisions in the manual. In some instances, it appears that proposals of Mr. Hayes were accepted at such meetings.

On other occasions Mr. Hayes' proposed revisions in the manual or introduction into it of new "cost" features were made known to the associated firms by letter with attached memoranda. On these occasions he solicited information on costs from various firms, examined this information, prepared draft schedules and proposals, submitted these to various firms asking for criticism and revisions, revamped his proposals, recirculated them, and by this process evolved proposals on which there was general agreement. Such proposals were then either incorporated into an existing manual or gave rise to entirely new issues of the manual.

It is not proposed to review all of this evidence in detail, but only to give examples.

Evidence that the members of the associated container manufacturers met and discussed "costs" is shown in the following

On November 18, 1948, Mr. Hayes circularized his clients as follows:

"Kindly be advised that a General Meeting will be held in Dining Room 10 at the Royal York Hotel, commencing at 10 o'clock on Wednesday December 8th.

Among the various items for discussion will be :  
Canadian Freight Association, Canadian Standards Committee,  
and other items of general interest.

In order that we may make proper arrangements for luncheon, will you kindly let this office know the number of persons who will be in attendance from your Company."

(Serial 23536 MPH)

Copies of this notice were found at :

MARITIME	-	Serial 23536 MPH
MARTIN-HEWITT	-	" 20247 MHP
CORRUGATED PAPER BOX	-	Serial 24284 CPO
GAIR	-	" 2982 GCT
DOMINION CORRUGATED	-	" A25293 DCT
MARTIN PAPER	-	" 8475 MPP "

The minutes of this meeting are in evidence (Serials 12143-44 CBT). These minutes reported discussion of all three items of business referred to in the notice of November 18. The first two items will not be dealt with here. In connection with the third, the minutes reported only that :

" . . .

A general discussion was held on the conditions of the industry and there being no further business, the meeting was adjourned."

(Serials 12143-44 CBT)

The minutes do not record the names of all in attendance, but show only that Mr. Palm of Hinde & Dauch and Mr. Littelljohn of Kraft Containers were present.

Mr. Diven of Canadian Wirebound was examined concerning his particular meeting. This was followed by questions concerning any meetings of the firms associated with Container Statistics .

"Q. What were the matters of general interest that were discussed at these meetings - were they the kind of things that we saw on that agenda a few minutes ago?

A. The general type of information would be the availability of raw material.

. . .

Q. And were the items of general interest that were discussed at these meetings -- like those items that we saw on the agenda [that of May 6, 1948] which has been referred to --

A. Some were.



THE COMMISSIONER :

If you have no recollection of what fell under the general affairs or whatever it is - just say so.

WITNESS :

I have no recollection now sir - that is eight years ago.

Q. I am speaking in general terms - about other meetings as well as this one - and I would like to ask you whether the various items of costing for example - of the various tables of material costs and conversion costs, added costs, quantity charges and so on - whether all those were the subject of discussion at one or another ?

A. Well in entirety - of the detail of them I can't say - but I will say in general - yes.

Q. Was it necessary, before one of these sets of tables was issued by Mr. Hayes, that there be a general agreement that the tables were acceptable ?

A. That usually -- within our company fell within the province of Max Sutcliffe who headed our costs work.

Q. Did he attend any of these meetings ?

A. I believe he attended - I don't believe he attended any of these general meetings but he attended the cost meeting.

Q. Well who took his views to the meetings ?

A. Mr. Dunn and I. "

(Evidence, pp.1285-87)

The evidence shows that early in 1949 Mr. Hayes was working on changes for the manual pages on single-faced sheets. This was referred to in his letter to H. G. Gee of Hinde & Dauch dated January 10, 1949 :

"We have been working with some manufacturers including yourself to secure individual costs on the production of single faced sheets . . .

. . .



We have worked out a new cost conversion sheet which has met with approval in some directions and the results received from it are listed under the column marked R. R. Rev. C. and we have also showed the percentage of increase over objective secured from the new sheet.

I wish you would give this some study and I will see you near the end of the week.

. . . "

(Serials 13876-78 HDT)

On January 21, 1949 Mr. Gee wrote to Mr. Hayes :

"Confirming our conversation of today attached herewith is a revised cost conversion sheet, covering single face sheets including a 5% mark up.

These figures have been compiled by using our average direct labor on paper handling - corrugating - slitting - star cutting - baling and shipping and applying that percentage of overhead which we have set up from our departmental allocation of costs.

. . . "

(Serials 13888-89 HDT)

Mr. Hayes also sent out questionnaires and letters relating to wrapping costs and received replies to them (Serials 21962-63 WBF; 22713, 22715, 22716-17 MPH).

On February 4, 1949 Mr. Hayes sent out a circular dealing with the matter of revision of the manual tables on single-faced sheets. Copies of this circular were found in the files of Maritime (Serials 23486-87 MPH), Standard (Serial 16225 SPB), Wilson (Serial 21924 WBF), Dominion Corrugated (Serials A 25295-96 DCT), Canadian Wirebound (Serials 12170-71 CBT), Gair (Serials 2999-3000 GCT) and Martin-Hewitt (Serials 20251-52 MHP) as follows :

#### "SINGLE FACED SHEETS

We have been spending considerable time analyzing the costs of Conversion Table 14, page 130 Manual B, and have not only gone back over the original costing sheets of the committee but have also had two of the largest manufacturers of single faced sheets supply current cost on their manufacture.

As a result of this double analysis, we have reached the conclusion that the Conversion Cost Table 14, which was converted into the current Ready Reckoner sheet, is incorrect and we are enclosing a copy of a proposed costing sheet for single faced that we feel is correct and will agree with your costs on the manufacture of this item at the present time. If you check some of your current costs you will find that on sheets having an area between 200 and 600 square feet, the costs are materially reduced over those you have been using, but with your 700 square feet up, the new costs are considerably higher than the ones now being used.

Would you kindly give this office any information as soon as possible on the attached sheet as several manufacturers are anxious to adopt this as their costs.

. . ."

(Serials 23486-87 MPH)

The draft Ready Reckoner sheet was attached to this letter. It is indicated in Mr. Hayes's evidence (Evidence, pp.4690-92) that this single-faced sheets table was one of the conversion tables that went into the manual.

Another subject on which Mr. Hayes drafted proposals for consideration by the container manufacturers was the costs of tying, wrapping, waxing and white patent coated board. A document dated February 8, 1949 entitled "MEMO ON COSTS" was found in the files of Standard (Serial 16237 SPB), Martin-Hewitt (Serial 20253 MHP), Maritime (Serial 22706 MPH), and Hinde & Dauch (Serial 13895 HDT). In the case of the last-named company the "MEMO ON COSTS" was attached to the following memorandum dated February 12, 1949 from C. Baird of the Toronto Sales Division to H. Gee of the Cost Department :

"Mr. McArthur would like to have your comments on the attached memo, submitted by Mr. Hayes, relating the costs of Tying, Wrapping, Waxing and White Patent Coated Board, as soon as possible.

. . ."

(Serials 13894-95 HDT)

The following letter from Mr. Roderick of Wilson to Mr. Hayes refers to this memo on costs, although a copy of it was not found in Wilson's files :

"We thank you for your memo of costs, dated February 8th and we are prepared to use these costs.

The wrapping material and the cost of labour works out about as you have outlined -- that is .40¢ for .016 and .30¢ for .009.

The waxing seems also about right -- it is about the same as we have been using, and we will continue to use \$2.05 waxed one side. We have not waxed anything in 2 sides and if you can give us any information about this later we will be glad to have it.

White Patent Coated : As there is not much demand for white patent coated cartons, we cannot purchase large quantities and the last lot we bought worked out \$5.17 M. S. F., and we feel that other manufacturers costs will be about the same now, therefore we intend to use \$5.17 board cost; \$2.83 kraft; \$2.30 corrugating; .20¢ silicate; TOTAL -\$10.50 and the waste is \$1.42 - making a total of \$11.92.

This is only a slight advance, but it is the actual cost whereas you mention \$11.28, which we do not think is enough [sic] for anyone. Will you kindly go into this matter further, and we would appreciate any recommendation you may make. "

(Serial 21925 WBF)

Mr. Hayes replied on February 14, 1949 as follows :

"I acknowledge your letter of February 10th and I have had some criticism of the wrapping charge. The cost for the paper appears to be correct but many are complaining about the labor charge. I note that on your questionnaire recently returned your direct labor was  $4\frac{1}{2}$ ¢ on approximately 500 sq.ft., which would be 9¢ per thousand sq. ft. and with about 200% overhead would be 27¢ minus the amount already in the manual to cover time. This, as you know, is considerably above the 15¢ estimated to cover conversion. We will undoubtedly be writing you further on this.

I agree with you that the waxing costs are very close to correct.

It is quite possible that your white patented [patent] coated board will cost you more in the Maritimes than here and

we can quite easily establish \$11.92 in your territory. Kindly let me know in reference to this.

While I have not bothered you much in reference to the Newfoundland basis, I have collected quite considerable data and will be forwarding you a recommendation there shortly.

. . ."

(Serial 21927 WBF)

The memorandum also reached Hilton as shown by the following letter from W. R. Hilton to J. A. Whealy at Corrugated Paper Box, sent on February 11, 1949 :

"We received from Container Statistics a memo on costs of which, I presume, you have received a copy.

Looking into the matter of waxing, we arrived at the following figures :

	<u>Today's Price</u>	<u>Proposed Pricing</u>	<u>Cost</u>
Waxing	15.00	20.50	8.28 Wax
Total	15.00	20.50	2.54 Labor
Mark Up	1.50	2.05	6.35 O. H.25
Base Price	16.50	22.55	<u>17.17</u>

In arriving at our cost, we took the figure of 6 lbs. per M Square Feet which we believe is ample and possibly a little high.

This is for your information ."

(Serial 24292 CPO)

Mr. W. F. Ireland, General Superintendent of Corrugated Paper Box, replied on February 18 as follows :

"Re Waxing Jobs.

Your letter of February 11th to Mr. Whealy, has been passed on for attention.

Will you please supply the detailed figures of these costs - blank size, labour detail, etc. Also, how was the weight of wax arrived at, and what price do you pay for wax and its grade.

In our work on the Cost Committee, where a general recommendation is to be made, we need all available detail, so that when making that recommendation, we feel sure we are as close to absolute cost as possible."

(Serial 24294 CPO)

Further documentary evidence indicates that Standard contributed to this discussion of costs (Serial 16231 SPB).

By March 11, 1949 plans for a meeting in Toronto were apparently under way (Serial A26097 LCO), and on March 24, 1949 Mr. Hayes sent a notice of such a meeting to his clients :

"Please be advised that we have called a meeting to be held at the Royal York Hotel, hall 'B' at 10 o'clock on Thursday morning, April 14th.

This meeting will convene at 10 a.m. for those who are interested in a general discussion of conditions. The meeting will re-convene at 11 a.m. to discuss Canadian Freight Association and Canadian Standard Association.

Will you kindly let this office know the number to be represented by your Company so that the necessary plans may be made for luncheon."

(Serial 24295 CPO)

In addition to Corrugated Paper Box, copies of this notice were found in the files of Wilson (Serial 21971 WBF), Martin-Hewitt (Serial 20255 MHP), Dominion Corrugated (Serial A25298 DCT), Hinde & Dauch (Serial 13904 HDT), Maritime (Serial 23501 MPH). Martin Paper was also informed and Mr. Hindle wired Mr. Godden of Brompton stating his intention to be at the meeting (Serial A26099 LCO).

It will be noted that in Mr. Hayes's notice one hour was set aside for "a general discussion of conditions". No minutes of this meeting were found anywhere nor any description in other correspondence. It is not known whether agreement was reached at this or other meetings or by correspondence, or by bilateral conversations between Mr. Hayes and the individual companies. However, a group of revisions to the manual was made and disseminated by Mr. Hayes in a memorandum with the suggestion that it should be put into use not later than June 15, 1949. There are virtually verbatim copies on the files of six different firms, and most of them are dated June 2, 1949. They are all on plain paper and none are signed by



Mr. Hayes. The original text of the memorandum (except for different numbers of copies in the first sentence) is that found in Canadian Wirebound's files (Serials 12178-8A CBT), Corrugated Paper Box's files (Serials A 23154-55 3 CPO) and Wilson's files (Serials 21978-79 WBF). The copy in Champlain's files (Serials A34031-32 2 CPS) has minor language changes, was dated June 14, 1949, instead of June 2, and was signed by Maurice Lambert (of Standard).

It is not proposed to quote the whole of this memorandum. From the following quotations, however, it is evident that the "costings" of several items had been changed and that several of these costings would have the effect of tending to raise prices. It will be noted also that several of the items which were the subject of the evidence quoted in the immediately preceding paragraphs are included in the changes mentioned in this memorandum, e.g., wrapping costs, waxing, and single-faced sheets :

# "MEMORANDUM ON NEW MANUAL.

Canadian Wirebound Boxes Ltd.  
1000 Gerrard St. E.,  
Toronto, Ont.

We are forwarding under separate cover 8 copies of new Manual. This Manual has heavier paper, printed on both sides, and a Keratol 7 ring flexible binder.

There are a few very minor changes which have been investigated and approved by our Cost Committee, incorporated in this Manual, and they are listed below.

. . .

ADDED COSTS : Minimums have been established in all added costs sheets, and all items where any of the added costs are a part of the total cost should be re-costed if their area falls below the minimum area listed here.

	<u>MINIMUM AREA</u>	<u>MINIMUM C</u>
Prefolding (Panels under 5")	5, 000	\$ 2.00
Horizontal Corrugations	5, 000	2.00
Sheets under 50" Width	10, 000	2.70
2 Piece Container	10, 000	15.00
3 Piece "	10, 000	22.50
4 Piece "	10, 000	30.00
Corner Cut - 1 Corner	4, 000	1.08
" " - 2 "	4, 000	2.16
" " - 3 "	4, 000	2.76
" " - 4 "	4, 000	3.32
Telescope Lid setting up	7, 000	30.80

The following new sheets have been added : -

Wrapping costs in .009 paper

" " " .016 "

Waxing one side

" two sides

. . .

SINGLE FACED SHEETS : New basis established, generally lower than old basis except on large sizes. All single faced sheets should be re-costed.

. . .

I would suggest that one old Manual be kept for record purposes, and should be put away out of general use. The balance of all Manuals in your possession should be returned to this office.

It is desirable that this new Manual be put into effect as soon as possible, and we would suggest that it should be used for costing purposes not later than June 15th."

(Serials 12178-78A CBT)

The Hinde & Dauch version in the form of a memorandum of June 8, 1949 from Mr. Baird to Mr. Gee differs from the version quoted above in that it omits reference to the Cost Committee in the second paragraph and for the last two paragraphs substitutes the information that the manual is to be made effective immediately and the older version was to be returned to Mr. Baird (Serials 13909-10 HDT). Mr. Baird of Hinde & Dauch was examined on Serials 13909-10 HDT and Serials 12178-79 CBT. Part of his evidence is as follows :

"Q. Well, does that paragraph under the heading of 'added costs' signify anything to you?

A. In this context I can't describe the change.

Q. Well I will tell you what it indicates to me and you can tell me whether my interpretation is correct?

A. All right.

Q. I interpret it to mean that on the added costs tables for pre-folding and horizontal corrugations which, in the manual that you were looking at a little while ago, showed varying

amounts for areas up to 5,000 square feet - that from the time this memorandum came out and onwards for the currency of that manual, regardless of how much under 5,000 it was, you still charged \$2.00 - does that interpretation coincide with your interpretation?

A. That is probably correct although I don't know from memory whether there were minimum areas in the previous tables.

Q. Well you can have a look at the manual that is there before you -

A. That would appear to be the correct interpretation.

Q. Now was this memorandum a copy or a paraphrase of a memorandum that was issued from Mr. Hayes' office?

A. I think that it would be since the sheets in question would also be issued from his office.

Q. And if you look at serial 12178-9 which I am now producing to you - and which is CBT I would like to ask you whether you remember receiving a copy of that document, addressed to your own company?

A. I presume that I did since the memorandum that appeared on the 8th of June contained similar information to the exhibit.

Q. From whom did this document originate?

A. I would believe that it came from Containers [sic] Statistics.

. . .

Q. And with respect to the final paragraph which says 'it is desirable that this new manual be put into effect as soon as possible and we would suggest that it should be used for cost purposes not later than June 15' and I see that in serial 13910 - in your own memorandum you say 'this manual (the new manual) is to be put into effect immediately and revised prices, where required, should be quoted for all new orders' -- so that on June 8th, 1949 apparently, you adopted the new sheets?

A. That would appear to be so."

(Evidence pp.547-49)

One other instance from a much later period in time will be cited to indicate that such consultation and discussion were not exceptional. On April 1, 1953 Mr. Hayes issued a memorandum headed "REPORT ON NEW MANUAL SHEETS " (Serials 8573-77 MPP; 18671-75 HCL), which read in part, as follows :

"REPORT ON NEW MANUAL SHEETS

It is necessary, in reference to certain data on corrugated containers, to still refer back to the W. P. T. B. Manual 'B', and while some of the information given in this book remains correct, a great deal of it, particularly on costs, is most decidedly incorrect, due to the tremendous increase in labour costs which has developed since this book was published. For this reason, and also complying with many requests, we are recommending that a series of sheets be issued which could be incorporated in the current manual and eventually eliminate all reference back to Manual 'B'. We are therefore enclosing four drafts which cover information, particularly on the determination of sheet area in various types of slotted or corner cut containers . . . .

. . .

We are principally interested in a careful check of all the information given on these sheets, and would suggest that where your understandings vary from the allowances shown, that you immediately give this office your method. Please remember that the formula given on these sheets is for the sole purpose of securing the area from either container or sheet area tables, and does not necessarily coincide with the sheet dimensions secured from the addition of your own individual score allowances.

. . .

I would like to have your comments or acceptance of these sheets not later than April 15th."

(Serial 8573 MPP)

This was followed on April 10, 1953 by a memorandum entitled "NOTES ON 1953 CONVERSION", copies of which were found on the premises of Hygrade (Serials 19103-18 HCL) and Hinde & Dauch (Serials 14375- 90 HDT).

The memoranda were signed by F. C. Hayes and endorsed "CONFIDENTIAL NOT FOR GENERAL DISTRIBUTION" (Serial 14378 HDT). Included in these memoranda was the following :

" . . .

. . . The last time that any manufacturer, to our knowledge, made an upward revision in selling price was around July 1st, 1951, which is getting close to a two year period, and during this period, to our knowledge, considerable extra costs have been absorbed by the manufacturer in the payment of increased freights, increased labour costs, higher depreciation due to lower volume.

We wish to make it absolutely clear that we are not suggesting a further increase in price, for it is not our responsibility to make any comments or recommendations on selling price, in fact, we are quite positive in declaring that the establishment of a selling price is a matter which is the exclusive responsibility of each manufacturer. We do feel, however, that this office should have in its possession at least draft copies of conversion tables similar to those now in effect but which would cover the costs that prevail today, so that any plant might have, if he so desired, copies of such costs in order that he might, if he so desired, revise his price or that he might reevaluate his today's selling price against today's costs.

We are therefore enclosing herewith a series of tables dealing with conversion, and showing several basis [sic] which have in the past been considered correct, and several possible conclusions which can be used against your present day costs to secure information as to which of these, if any, are close to today's costs. A more detailed explanation of these sheets appears below."

(Serial 14375 HDT)

The memorandum then proceeded to indicate sections of the manual where revisions would, or might later, be proposed, and then proceeded to describe a series of attached tables (Serial 14378 HDT).

On May 4, 1953 Mr. Hayes wrote the following to Mr. M. Sutcliffe of Canadian Wirebound :

"Confirming our telephone conversation, I have arranged an informal discussion on conversion costs to take place in our office on Monday, May 11th, at 2 p.m.

At the present moment we expect four companies to be present



and while I expect to be out of town for the balance of the week, we will have our office call you if there is any change in this programme."

(Serial 12486 CBT)

Letters in identical terms were sent to Mr. H. Gee of Hinde & Dauch (Serial 14391 HDT) and Mr. W. F. Ireland of Corrugated Paper Box (Serial 24331 CPO). Oral evidence indicated that the fourth person referred to was Mr. Inman of Gair (Evidence, p.4625).

On June 9, 1953 Mr. Hayes issued an unsigned memorandum : "CONFIDENTIAL REPORT ON CONVERSION", copies of which were found at Corrugated Paper Box (Serials 23882-89 CPO) and Hygrade (Serials 19119-26 HCL).

"The following is a report on suggested changes in conversion which possibly might be adopted by individual companies at some future date. The reason for this report is that the conversion tables in use today are now some three years old, and increases in freight, labour and other costs have been compensated by various percentage additions to these tables, and as of July 1st 1951 the percentage required to bring conversion tables to actual cost was 15%, and I believe no change has been made since that date. In the meantime, however, there have been considerable changes in actual costs, and it is felt that further compensation by means of percentage will develop serious inequalities. We are therefore suggesting that complete new conversion tables be prepared ready for use which are based upon current costs.

. . .

We have also suggested several changes under various headings. I would suggest that each one of these be studied carefully, and of course none of these suggestions need to be followed unless they are thought to be an improvement over present conditions. As we wish to get these sheets printed and in stock ready for use before the holiday season starts in the printing establishments, we would suggest that they be analysed immediately. "

(Serial 23882 CPO)

The attached pages contained specific figures proposed for revising the manual conversion tables. Relating the figures to the manual actually adopted later in the year, it is clear that the proposals outlined were adopted for most specifications and represented an addition of 25 per cent over the manual of 1950.

There was further circulation of memoranda by Mr. Hayes on August 4, 1953 (Serials 7028 CST; 12555-59 CBT; 8614-18 MPP). A reply from Mr. Dunkin of Maritime is in evidence (Serial 23389 MPH).

Some time after September 1, 1953, a seventeen-page memorandum (Serials 6945-61 CST) was written by Mr. Hayes, a copy being obtained from the files of Container Statistics. The memorandum, headed "THIRD REPORT ON 1953 CONVERSION" began :

"We have received considerable criticism of the conversions previously recommended under date of April 10th 1953, and in order correct these and also to give an idea of the amount in dollars and in percentage of any possible increase in costs, we find that it is necessary to use a new basis for paperboard, even though such basis is purely imaginary. They are, however, based upon considerable reliable investigations, taking into account the new American board prices effective September 1st, and the new freight allowances which were established on American board about the middle of August. We are listing board prices below : "

(Serial 6945 CST)

There followed a table called "IMAGINARY LINER PRICES", all these prices being worked out on the basis of \$153.50 per ton of Kraft board, an 8 per cent increase over prevailing prices. This was the increase actually adopted later by all the board mills beginning with Bathurst on October 2. This memorandum was unusual for Mr. Hayes in its frank references to recommended selling prices. It may be noted that with regard to these 1953 conversion tables, Mr. Hayes stated that he based them "on information received from and after consultation with the Bathurst company" (Evidence, p.4629).

#### 4. The Customary Use of the Manual

It is hardly to be expected that an elaborate document containing the great degree of detail that the Container Statistics manual contained, revised from time to time by a process of drafting, re-drafting, consultation and agreement, and costing considerable amounts of money to print and distribute, would have been produced if it were not going to be used for some purpose. Since the evidence on the point is quite voluminous, reference here is limited to a few citations which indicate both the purpose for which the manual was designed and the extent to which it was used by the companies.

Mr. F. J. Roderick of Wilson testified as follows :

"Q. . . . whenever Mr. Hayes sent to you Containers [ sic ] Statistics tables for the ready reckoner - did you take those tables into effect ?

A. You mean to use them in actual practice ?

Q. Yes ?

A. Yes - as soon as they were applicable - that is.

Q. Do you mean by that that sometimes they were sent to you for approval and study before putting them into effect ?

A. (pause) -- Well the answer to that is we generally -- before putting them into effect, -- (pause) - if we found them in order we would put them into effect.

Q. You paused there - if you found them in order ---

A. We would check the details on them as far as we could and if we find the information on them to be correct we would use them.

Q. Well am I not correct in understanding you to have said this morning that you had no job costing system that would allow you to check the accuracy of these individual sheets ?

A. No - We have no job costing system that would allow us to check the accuracy of the individual sheets -- no - what I had in mind there would be material costs changes for instance - when we revised the Canadian freight classification and inserted sheets for 42 lb. liners - where we had been formerly using 47 lb liners - we wouldn't put them into use without first checking -- spot checking, that is -- through the tables to see that that basis of the prices - or the cost of the materials -- was in accordance with the costs of the materials - the actual costs of the materials as charged to us by the paper mill.

Q. Well now - with respect to the conversion - how could you do any similar check to that ?

A. We couldn't -- we relied very much -- we relied entirely on those figures.

Q. Yes -- so that when you received from Mr. Hayes conversion tables that were sent to you to use - you used them - is that correct ?

A. We used them - that is correct - yes."

(Evidence, pp.4109-10)

Mr. Bradbury, Supervisor of the Order Department,  
Shipping Containers Limited, testified as follows :

"Q. . . . I am showing you serial 5452 to 5581 CST [copy of the 1948 issue of the CONTAINER STATISTICS pricing manual] which is a volume we obtained from Container Statistics Limited and in relation to pricing sheet 48890 - I wonder if you would check to see whether the price applicable on October 18th 1948 was calculated through the use of that manual - plus 5 per cent mark-up?

A. I will have to check this and take some time here -- I haven't figured prices for a long time --

Q. Just take your time --

A. October 18th 1948 ---- you were asking me about the price of October 18th 1948 - if it came out of this book plus a 5 per cent mark-up - ---

Q. Yes --

A. Yes it did.

Q. And did you regularly at that time use that manual or - rather a manual like that - with 5 per cent mark-up for calculating prices?

A. Yes.

. . .

Q. Now I am showing you serial Nos. 21320-21511 [copy of the 1950 issue of the Container Statistics pricing manual] which came from your own company and referring to September 7th 1950 - the price on serial 48890 -- and I would like to ask you whether you used that manual that I put in front of you - and a mark-up of 5 per cent - to get the September 7th 1950 price?

A. Yes.

Q. And at that time - September 7th 1950 you were regularly using that manual which you have in front of you and a mark-up of 5 per cent for calculating all ----



A. We usually used some manual for calculating when we had a price - we only had one manual, period.

. . .

Q. During the period from December 1950 to July 1951 - did you regularly use the 5 per cent and 5 per cent on that manual?

A. We always used the manual during the period - yes."

(Evidence, pp.1630-33)

Mr. A. R. Oelbaum of Acme testified as follows :

"Q. Was it the policy of your company that as Mr. Hayes submitted revised sheets they were to be taken into effect?

A. In a very general way - yes.

Q. Well why do you make reservations ?

A. Well because I can visualize -- I can't say yes or no - but I can visualize that some sheets came in that we would not want to use for any purpose at all - they just wouldn't be used.

Q. Well - did it ever happen ?

A. To my knowledge or recollection as of this moment, I don't remember it ever happening. "

(Evidence, p.5152)

Mr. Tunncliffe of Gair testified as follows :

"Q. Well let me ask you this question - after the green manual [Manual 'B'] was superseded by the black manual [CONTAINER STATISTICS manual], did you always have the [a] pricing manual which you used in pricing corrugated shipping containers and parts?

A. Oh yes, we always had a manual - we always had a costing manual.

Q. Did you always abide by that costing manual when you were making up your price estimate sheets?



A. Well there are certain eventualities which are not covered - can't possibly be covered by a manual.

Q. I see?

A. I mean it is impossible for a manual to cover everything - there would be cases where we went beyond the manual and we used our own judgment.

. . .

Q. Well what sort of thing would it be - what sort of product would it be?

A. Well say it would be a display with a terrific amount of printing and very intricate designs and so on.

Q. Would it ever be a 65 lb. test box of ordinary dimensions?

A. No.

Q. Or would it be any of the various specifications of boxes that were covered by the manual?

A. No it would be as I said things beyond the scope of the manual.

Q. Then to the extent that the manual covered the specifications that were being sold, did you always, then, use the manual?

A. Yes.

Q. Well then did you always use a mark-up of 5 per cent over the manual - that is over the black manual?

A. Yes."

(Evidence, pp.89-91)

Mr. J. C. Colclough of Hendershot testified that "our normal procedure is to use that manual plus our markup to arrive at what we feel our selling price should be" (Evidence, p.4983).

Mr. Palm of Hinde & Dauch testified as follows :

"Q. . . . prior to your having put out this volume [the Hinde & Dauch pricing manual] in the fall of 1953, are you prepared

to concede that the general method of calculating prices was to use as a routine, the Container Statistics Manual?

A. Generally speaking in every instance no, but for the most part, yes that is quite true.

Q. And are you prepared to say that it was in all those cases where the manual lent itself to the pricing of those products?

A. No I wouldn't go that far.

Q. What exceptions do you have in your mind?

A. Well I know certain instances where we are called upon to do certain things for customers that are unusual and require special effort on our part and we get paid for it.

Q. That is just the kind of exception I was trying to make for you.

A. Well that is why I said generally speaking.

Q. And having then, on a particular order, arrived at the total of the manual components, is it correct that in that period to which I have referred, you added a mark-up which was applicable to all of your customers?

A. There was a cost manual providing a cost and we established a mark-up beyond that -- that is quite true, yes.

Q. Your price estimator in other words put on every one of these estimate sheets they made up the same mark-up, to start with, over the manual?

A. Yes, generally speaking that is true.

Q. Why do you say generally speaking again?

A. Because in answering the question we went beyond that.

Q. Are these cases of die-cutting and things like that that you are speaking about?

A. Could be.

Q. Is there any other kind of thing you have in mind?

A. No. It is just unusual items that might not be just regular highly competitive jobs.

Q. And that is the only sort of exception or reservation you are making?

A. Yes."

(Evidence, pp.6346-48)

The following extracts from the evidence also relate to the purpose and use of the Container Statistics manual.

Mr. McArthur, General Sales Manager of Hinde & Dauch, testified as follows:

"Q. Now Item 'C-2' -- Mr. Baird says here 'Question of costs in relation to 5 per cent 2 car discounts'?

A. Yes.

Q. 'Other than the control by machine charges, there is no provision in our price manual for adjusting prices according to the quantity in individual runs' -- what price manual was that?

A. I don't know what he is referring to there.

Q. It wasn't what you called the cost manual?

A. It may have been -- I don't know what it is referring to.

Q. Could it be anything else?

A. I wouldn't say so.

Q. Pardon?

A. I wouldn't say so -- I couldn't say -- what he refers to --

Q. Well as sales manager, don't you know whether you had a price manual?

A. Yes -- I know we had a price manual but I don't know the mechanics of the price manual - I wasn't too much concerned with it - that is what we had Mr. Baird for.

Q. Well now I am asking you -- what was that price manual - is it the same as this cost manual?

A. It was the cost manual -- it was the cost manual."

(Evidence, pp.1421-22)

Mr. Dunkin of Maritime was questioned in connection with Serials 22586-87 MPH dated October 19, 1948, a copy of a letter written by him to Mr. Hayes. This letter began: "The price books, which you sent to us, have been received and there seems to be little or no complication in connection with the figuring of the new costs thus far". Mr. Dunkin's evidence was in part as follows:

"Q. I see you refer there to the price books - what did you mean by that?

A. In other words it would be the manual I suppose - they are referred to as manuals by Mr. Hayes.

Q. Do you personally refer to them as price books?

A. Well that is generally what -- that is around the office we always referred to them as price books.

Q. Why do you refer to them as price books Mr. Dunkin?

A. Well it is just -- just the name -- that's all.

Q. Is it because they are used for pricing?

A. Because they are used for pricing."

(Evidence, p.4326)

5. The Interpretation of the Manual by Mr. Hayes

The evidence also clearly establishes that Mr. F. C. Hayes interpreted the application of the manual "costs" to specific jobs for the companies which were associated with him or with Container Statistics.

Mr. W. R. Hilton of Hilton testified on this matter as follows:

"Q. Mr. Hilton, did you ever designate Mr. O'Dowda to attend any meetings with Mr. Hayes?

A. I probably have, yes.

Q. Have you ever delegated him to attend any meetings with Mr. Hayes and people from Martin Paper Products?

A. Yes, I think probably I have.

Q. What would be the purpose of those meetings?

A. To get an interpretation, have Freddie [Mr. Hayes] clarify the interpretation of the manual as far as costing is concerned.

Q. And do you mean that he came out to Winnipeg for that purpose to clarify the manual?

A. I would say yes.

. . .

Q. Well, now, are you saying that this is a complicated manual with respect to ordinary price figuring of ordinary boxes?

A. Not when you are familiar with it, no.

Q. Now, were these people like O'Dowda familiar with it? They had been using it for years and years?

A. On normal -- on ordinary standard boxes I would think maybe is familiar with it but I don't imagine he has used it much more in the last ten years than I have.

Q. You see, Mr. Hilton, what I am trying to find out is the purpose of meetings to discuss the interpretation of a manual based on the fact that I became reasonably familiar with this manual myself in a couple of days just looking at it.

A. I think you will -- you try to operate some of the machines or figure some of the special boxes that come in and you would probably run into the same difficulty as I would.

Q. Well, that was the kind of thing I was trying to get at. Are there important occasions on which it is necessary to secure interpretation from Mr. Hayes in connection with pricing special products?

A. Yes, there were in the early days of the manual.

Q. And are these of such significance and difficulty as to require him to come out here for that particular purpose?

A. I would say yes."

(Evidence, pp.2863-65)



Mr. Courchesne of Sherbrooke testified as follows :

"Q. Now Mr. Courchesne -- do you know Mr. F. C. Hayes of Container Statistics Limited?

A. No - not personally.

Q. Have you ever had any business relations with him?

A. I have talked to him on the phone.

Q. I see --

A. -- once or twice I believe - anyway.

Q. What was the nature of your conversation -- what was it about?

A. That first time I guess was way back -- when we had no die-cut machine - we installed a die-cut machine in our plant and we didn't know too well how to proceed about costing - you know and I called him to get the proper procedure and see if I was using the manual properly - you know -- to arrive at the cost.

Q. And was that in connection with any particular order or was it just general information?

A. No - I think it was general at the time - it may have been one -- there may have been a quotation involved you know - but that is probably almost two years ago so I couldn't recall what was said or --

Q. Do you recall if Mr. Hayes assisted you in working out the price on the die-cut product?

A. No I believe I made up my quotations and I believe I asked -- I mailed them to him and asked him to check up on them - you know - and advise if we were proceeding the right way.

MR. GASCOIGNE :

Q. What did he say?

WITNESS :

A. Gosh -- I don't know now - I mean they came back and there may have been some comments on it - I couldn't say -- as I say it is two years ago - I couldn't recall actually."

Mr. Lloyd of Canadian Wirebound also confirmed that he had consulted with Mr. Hayes regarding the interpretation of the manual :

"A. If we had any questions as regards this manual's figures and so forth, we contacted Mr. Hayes or, in some instances, where we had a special where we needed some cost figures on, we contacted Mr. Hayes for those figures.

Q. I take it you mean that if you had any difficulty in using the manual or in the interpretation of the manual, you phoned Mr. Hayes?

A. Yes, that's right.

Q. And did you always follow the advice which he gave you?

A. Yes.

Q. Now did he visit you at the company?

A. Yes sir.

Q. For what purpose?

A. He came and brought me some of these sheets at various times and discussed the use of the sheets - the manual - showed us how to use it when we originally got it - he came and explained the use, how to use it."

(Evidence, p.300)

That Canadian Wirebound had consulted Mr. Hayes with regard to the use of the manual for "costing" was confirmed by Mr. Diven of that company (Evidence, pp.1166-67).

Again, Mr. Oyler of Corrugated Paper Box testified as follows:

"Q. Now - in connection with your job with Corrugated Paper Box - did you have occasion from time to time to get in touch with Mr. Hayes?

A. I did - yes.

Q. For what purpose, Mr. Oyler?

A. Comparing costs

Q. Comparing costs --

A. In the manual and the method of figuring of price.

Q. Now -- would you elaborate a little bit on your answer?

A. There are quite a number of styles of boxes used in the industry and in determining a formula for arriving at a given size of box there are a number of square feet - a thousand boxes at a given size of a given style -- I had occasion to call him to find out whether or not I was following the right formula.

. . .

Q. I see -- so that your principal reason for getting in touch with Mr. Hayes was to determine the correct area to use?

A. That is correct.

Q. Did you get in touch with Mr. Hayes on occasion for any other purpose?

A. Yes I did.

Q. And what was that purpose?

A. Having him review my costs -- I would give him a box size and tell him that I had figured it such and such a way and that I had come up with a certain base price and I asked him to double check me on it. "

(Evidence, pp.851-53)

6. Mr. Hayes's Activities in Connection with Mark-ups

At several points during his oral examination Mr. Hayes denied that he had anything to do with mark-ups, maintaining that all his work was on costs. Some other witnesses supported this view.

Mr. Hayes's denial of any connection with mark-ups is exemplified by the following extract from his testimony in connection with Serial 22758 MPH, a letter dated October 4, 1948 signed by himself and sent to Mr. J. Dunkin.

"Q. And you end up by saying in the last paragraph of the letter : 'Should you decide, and I believe it would be the basis that I would select, on the 10 conversion and the 12½ per cent markup etc.' -- now was it usual for you to tell your clients what markup you thought they should select ?

A. No - it was not usual - this was early in 1948 and as I said yesterday, we had not completely convinced ourselves as to how we should handle our discussions on markup and - as I said before my policy today is that I don't discuss markup and I try and stay away from it. Some places it has been mentioned, undoubtedly, such as this particular one. Usually I don't tell the man what he can do. I give him all the facts and allow him to select his - not only markup but his conversion - he has that right. He had it then, he has it now. I gave him all the information, competitively, that I can and that I think is logical. He asked for this information and he got it.

Q. Did you give some assistance on markup to the eastern manufacturers, when you had in your mind that it wasn't such a bad thing to do?

A. What is that?

Q. I say did you give assistance to the eastern manufacturers about the amount of their markup at the time when you had less reservations about it than you have today?

A. You mean did I give it to --

Q. Eastern manufacturers - Montreal and Toronto for instance?

A. No - the five per cent markup - that was developed in the east - was certainly never recommended or suggested or inferred by me, -- personally, I wouldn't recommend five per cent markup.

(Evidence, pp.4681-82)

Another denial of any interest or connection with mark-up is made by Mr. Hayes in the following extract from evidence :

"Q. Did you in connection with that manual inform anybody as to the amounts of the markup applicable to Ontario and Quebec?

A. No -- no -- I don't know, I don't know.

Q. I beg your pardon.

A. I don't know -- I don't recall that I did.

Q. Now would it have been unusual for you to do such a thing -- to have notified people as to the amount of the markup?

A. You mean before or at the time or later?

Q. At about the time of a price change?

A. I think that probably would have been -- I think that would have been unusual if I did, yes.

Q. Can you remember whether you did give that information to anybody before they changed their prices?

A. I don't recall but my memory says I didn't. "

(Evidence, pp.6148-49)

This view was supported by Mr. Dunn, President of Canadian Wirebound, who testified as follows :

"Q. Did you ever receive information from Mr. Hayes as to what the markup was?

A. No - Hayes had nothing to do with prices whatever.

Q. What about markup?

A. Or markup - either - he had nothing to do with it --his basis was all costs.

Q. Did he ever tell you what other people were using as their markup?

A. No.

Q. Did you ever receive information from your own people - like Diven or Sutcliffe - or any of those people who were employed by your company - that they had received information of that kind?

A. I don't recall that - any instances of it - Bob Diven and Max Sutcliffe had the job of looking after that end of it.

Q. And did they report --

A. If they got that I don't recall it."

(Evidence, pp.5733-34)

There is considerable documentary evidence as well as some oral evidence which runs counter to Mr. Hayes's contention that he was not concerned with mark-ups. Let us consider, for example, the following documentary and oral evidence :



A memorandum written by Mr. Hayes and dated July 2, 1948 with certain attached documents (Serials 9157-64 HBL, 9145-46 HBL, also Serials 24243-52 CPO) read as follows :

"MEMORANDUM - JULY 2nd, 1948.

Attached to this memorandum is a record summary of conditions in the following territories :

1. British Columbia
2. Alberta
3. Saskatchewan (Zones 1 & 2)
4. Manitoba

These are sent to you for your personal information and if you require copies for your own confidential file, kindly make some, and in any case, return these originals to me personally.

I am also enclosing sheet showing total mark-up as used by one competitor in the Province of Alberta. The percentages shown on this sheet are correct and any previous sheet in your possession which varies should be destroyed.

It is my understanding that when quotations are made for any quantity of cartons for one single order, for one single size, the amount of square feet in the order will be secured, and if a box of 12,000 square feet is required in 1,000 lots, the mark-up is 10%. If 500 cartons are required, the mark-up would be 19%. If 250 boxes - the mark-up would be 27%. It is also my understanding that when a box, liner and partition, is being quoted, the square feet shall be the total of all the parts comprising the complete box.

Again this sheet is being supplied for your personal information and if you require copies, kindly make some and return the originals to me. "

(Serials 24243 CPO; 9157 HBL)

The second item referred to in this memorandum was called "MEMORANDUM ON ALBERTA FOR RECORD JULY 1948." This document continued as follows:

"Competitive situation between shipments from Ontario, Manitoba and British Columbia, British Columbia shipments apparently establishing lowest basis - Following based on lowest competition.

Method of Computing Costs (R. R. Manual)

Material	.....	(B. C. basis)
Conversion (+ 15)	.....	
Closure	.....	
Printing	.....	(If used)
Added Costs	.....	
	<hr/>	
Total Costs	.....	

A. If total square feet in order is less than 10,000 square feet.

Total Costs	.....	
Plus M.U.	.....	(Varied %)
	<hr/>	
Total	.....	
Plus Freight	.....	(B. C. - Alberta)
	<hr/>	
Total . . .	.....	
X Amount ship'd	.....	
	<hr/>	
Total	.....	
Plus Machine Chge	.....	
	<hr/>	
Cost to Customer	.....	(F.O.B. destination if poolcar available)

B. If total square feet in order is 10,000 or over, but less than 160,000 square feet.

Total Costs	.....	
Plus M.U. 10%	.....	
	<hr/>	
Total	.....	
Plus freight	.....	(B.C. - Alberta)
	<hr/>	
Total	.....	
X amount ship'd	.....	
	<hr/>	
Total	.....	
Plus Mach. Charge	.....	
	<hr/>	

Cost to Customer	. . . . .	(F. O. B. Destination poolcar available)
C. If total square feet in order is 160,000 square feet or over,		
Total costs	. . . . .	
Plus M. U. 10%	. . . . .	
Total . . .	<hr/>	
Plus Freight	. . . . .	(B. C. - Alberta)
Total	. . . . .	
Am't shipped	. . . . .	
	<hr/>	
Total	. . . . .	
Less 3½%	. . . . .	(If 1 C/L -5% if 2 C/L)
Total	<hr/>	
Plus Mach. Chge	. . . . .	
Cost to Customer	<hr/>	(F. O. B. Destination)

(Serials 8156-57 MPP)

Mr. Hayes's evidence in connection with this document was in part as follows :

"Q. Well let us just take a look then at serial 8156 - you have got total costs plus markup ten per cent, comes to a total --

A. What number are you looking at?

Q. 8156 (b) --

A. B.

Q. Total costs plus markup ten per cent gives you a total, plus freight, gives you a total, times amount shipped, gives you a total plus machine charge, gives a total, now there is the next item -- is it selling price or not?

A. Selling price.

Q. Right?

A. Yes.

Q. How do you reconcile that with the general position that you hold that you are not concerned about markup?

A. I am not concerned in the markup other than from the competitive situation it gives and they can go as much lower than that - as they wish to go - I am not suggesting that they all use that markup but to be competitive he doesn't want to go above that - or he isn't going to get any business.

Q. Is that not another way of saying that you are interested in facilitating the adoption of uniform prices?

A. No sir - I am interested in seeing a client doesn't be placed in a position of being higher than his competitor -- something that he is going to find out sooner or later, and to facilitate, in this case, that he gets that information. At least he has got to go that low. "

(Evidence, pp.4572-73)

Mr. Wilkins of Hygrade questioned in connection with changes in mark-up in 1953 testified as follows :

"Q. . . . and in the 1953 change you had to change from 5 per cent and 15 per cent sur-charge back to 5 per cent again -- how did you know to do that?

A. I think I asked Hayes.

Q. And did Hayes tell you?

A. Yes sir.

Q. Just in connection with your answer there when you said 'I think Hayes told me' -- perhaps the reporter would read that answer back --

REPORTER : 'I think I asked Hayes' - question : 'And did Hayes tell you'? Answer : 'Yes.'

Q. Just to be sure there is no ambiguity there - can you say that you definitely asked Hayes?

A. Yes -- I would say yes. "

(Evidence, p.5501)

Another example of Mr. Hayes's recommendations regarding mark-up is in the following letter from Mr. Hayes to Mr. Dunkin of Maritime, dated October 4, 1948 :

"Dear Mac :

Confirming our telephone conversation of today, I understand that the price of liner board is going to be increased to -

009	-	\$1.51
016	-	2.83
025	-	4.63

We have prepared a summary of 65 lb. cartons and 40 lb. cartons to assist you in arriving at your own conclusions. Particular attention should be paid on both sheets to items 10 and 11 which are the delivered prices in 1 and 2 Car Load lots from Montreal. It appears possible for you to use current material costs and conversion at 15% which is now in the book you possess [sic] with a mark-up of maximum  $12\frac{1}{2}\%$ , although this throws your price very close, and in small sizes slightly over the delivered price from Montreal.

As an alternative you could drop down to conversion 10 which is the basis being used in Ontario and Quebec and with a maximum Mark-up of  $12\frac{1}{2}\%$  you would be under the Montreal delivered price, except on a very small box. I would suggest that you study this list very carefully.

Should you decide, and I believe it would be the basis that I would select, on the 10 conversion and the  $12\frac{1}{2}\%$  mark-up, the comparison between orders of less than 1 car is to compare item 9 to item 32. For 1 car lot compare number 10 to 33 and for 2 car lots compare number 11 to 35.

I will call you Thursday morning on this matter."

(Serial 22758 MPH)

Finally, one further piece of evidence on this subject is noted. Ready Reckoner tables headed "FREIGHT COSTS TO NEWFOUNDLAND F.O.B. ST. JOHN" were printed and issued (Serials 6754-68 CST). These were being used by Maritime in pricing orders by April 6, 1949 (Serial A29908 2MPH). On Serial 6763 CST, which is a Ready Reckoner sheet, there appears the following :

". . .



EXAMPLE - - - FIGURES (EXCEPT FREIGHT COSTS) NOT  
NECESSARILY CORRECT

CARTON  
10 x 10 x 10 REG. 65 LB.  
016 - 009 - 016  
AREA 5980 SQ.FT.

<u>WRAPPED IN</u>	<u>NO.</u>
MATERIAL	\$53.58
CONV.	11. 66
CLOSURE	4.00
WRAPPING	<u>0.00</u>
TOTAL	\$69.24
PLUS M. U. X%	<u>X.XX</u>
TOTAL	\$74.78
FREIGHT	<u>13.44</u>
TOTAL	\$88.22
... "	

(Serial 6763 CST)

The mark-up at X per cent resulting in \$X is obviously the difference between \$74.78 and \$69.24, i.e., \$5.54, which is per cent of \$69.24.

The table of freight "costs" to Newfoundland was revised shortly afterwards and the revisions were communicated to Maritime in an undated memorandum from Mr. Hayes (Serial 23506 MPH). The document included the following passage :

"... "

For correct freight costs take area to next higher 100 Sq. Ft. (5930 = 6000) x costs shown above for correct grade of board, and add result to carton costs after markup has been added. From Ontario or Quebec add 3 points to current markup to cover extra freight costs between actual freight and this Table - example, (figures not necessarily correct) -

Total Carton Costs	\$100.00	
M. U. 5 + 3 = 8	8.00	
	<hr/>	
	\$108.00	
Plus Freight from		
Table	16.20	
F. O. B. St. John	<hr/>	
	\$124.20	"

(Serial 23506 MPH)

It should be noticed that in this document the mark-up is very definitely spelled out as being  $5 + 3 = 8$  (per cent).

#### 7. Mark-ups Within Pricing Zones

We have seen that under the Container Statistics manual system Canada was divided into several zones for costing purposes and that when a mark-up was added to the "costs" for a particular zone a price was arrived at for that zone. We have also seen that the companies associated with Mr. Hayes and Container Statistics Limited habitually used the manual in working out their "costs". It remains to be seen to what extent the companies located in and selling to customers in a zone used the same mark-up on manual "costs" to determine their price. The following extracts from oral evidence are relevant to this issue. They should be related to the evidence quoted in the previous section, which indicated that at least on some occasions Mr. Hayes disseminated information on mark-ups.

The testimony of Mr. Bradbury, Supervisor, Order Department Shipping Containers, indicates that his firm used uniform mark-ups. Part of this testimony was quoted in section 4 of this chapter and will not be repeated. The following excerpt is the continuation of Mr. Bradbury's evidence from where the excerpt was terminated in section 4 :

"Q. In the period between October 18th 1948 and September 7th 1950 - did you use the manual I showed you before [5452-5581 CST] and a 5 per cent mark-up?

A. Yes I would think so.

Q. And I refer to the price of December 30th 1950 now - and using the manual which you have in front of you - would you check to see whether that December 30th 1950 price was calculated through that same manual with a mark-up of 5 per cent and an additional mark-up of 5 per cent, Mr. Bradbury?

A. Yes -- that original mark-up we were talking about - on the September 7th 1950 -- then it was an extra 5 percent - that's right.

Q. So then - was that your regular method of calculating all prices at that time?

A. Yes - that's right, yes.

Q. And in the period between September and December 1950 did you regularly use the single mark-up of 5 per cent?

A. September 7 and December ---

Q. Yes?

A. Yes.

Q. Now I would like to refer you to the July 1951 price and I would like to ask you whether you used that manual in front of you with mark-ups of 5 per cent and 15 per cent at that date?

A. No -- yes -- 5 per cent - 5 per cent and 10 per cent.

Q. Yes -- is that different from 5 and 15?

A. Yes. It is.

Q. I see - - -

A. I believe so.

Q. Well now -- which of those columns on 48892 is the relevant column?

A. I beg your pardon?

Q. Which of those columns on serial 48892 is the column showing the factors?

A. Well it is in the centre of the page down at the bottom - it says \$154.85.

Q. \$154.85 ---

A. Yes. This was July 1st.

Q. So that - if you look at that you will see that the first 5 per cent and the 10 per cent are both calculated on the same figure - so that it really didn't matter which way you did it - whether you added 15 per cent or 5 per cent and 10 per cent -- was that the regular system?

A. Yes -- yes -- I always used 5 and 10 --- we never used 15.

Q. But it was 5 per cent on the same figure as the 10 per cent was calculated - is that right?

A. I believe so -- that is correct - I would have to look at a few to tell you definitely whether we did or not --

Q. But it is the case in this one ?

A. In this one I think that is the way it was worked - I am not positive.

Q. At any rate - whatever the system used in that regard - was definitely the system - was it?

A. It was a general system yes - there may be the odd error though - in calculations.

Q. Do you think that this might be an error?

A. No - I believe that is the way we worked it.

Q. During the period from December 1950 to July 1951 - did you regularly use the 5 per cent and 5 per cent on that manual?

A. We always used the manual during the period - yes.

...

Q. With respect to your answer a few moments ago that you always used the one manual - I take it by that you mean that there were many sheets being added and that these versions which I have shown you were revisions of the original sheets?

A. What I mean is that once we had a price between a period -- the prices were figured on a set of figures until another price change.

Q. Yes -- now I am showing you exhibit 16 which was put into evidence as a current manual - and I would like to ask you whether your price of October 6th 1953 was figured through a copy of that manual with a mark-up of 5 per cent ?

A. (Witness makes calculation) - That's a funny sort of thing -- yes, that is definitely out of this book.

Q. And I would like to ask you in the intervening period then - from July 3rd 1951 to October 6th 1953 did you regularly use the 1950 Manual throughout with the 5 per cent and 15 per cent mark-up?

A. That's right."

(Evidence, pp.1630-34)

Mr. Crawford of Kraft Containers testified as follows:

"Q. . . . now during that period - from the time you joined the company in July 1952 until October 1953 - did you regularly use the manual? --

A. Yes.

Q. ---Which had on many of its pages 'Containers [ sic] Statistics Ready Reckoner' ?

A. Yes.

Q. And did you regularly apply 5 per cent and 15 per cent to the costs developed through that manual?

A. Yes."

(Evidence, p.594)

"Q. Now I am producing to you serial 42572 which is a price estimate sheet -- 2KCH - that is to say, it came from Kraft Containers in Hamilton, and that is dated October 8th, 1953 -- now I would refer you to the first column there -- we have been checking these various factors through the manual and we find that they do agree with the manual in effect in October 1953 and I note that there is a mark-up of 5 per cent on the total cost per thousand -- which is found on line 9, and I see that the total price of \$235.35 is carried forward to invoice 2KCH - on October 9th, 1953 -- now I would like to ask you whether you recall a change in price about that date in 1953?

A. Yes.

Q. And immediately thereafter was it the standard practice in Kraft Containers to add 5 per cent to the manual cost?



A. Yes.

Q. It is clear from what I said to you that we checked this through the manual which was in effect after the price change?

A. Yes. "

(Evidence, pp.585-86)

In an inter-office memorandum dated October 6, 1953 Mr. Crawford issued the following instructions regarding zone mark-ups :

"On all shipments to the following destinations the mark up will be as follows :

Ontario	5%
Montreal	5%
Quebec	5%
East of Province of Quebec	10%
Halifax, N. S.	10%
St. Johns, N. B.	10%
Prince Edward Island	10%
Newfoundland	17½%

These mark-ups are applicable on all accounts.

All prices delivered . "

(Serial 43546 2KCH)

Mr. Crawford, when examined orally on this document, said he believed the figures came from someone in the Hamilton plant of Kraft Containers and that the mark-ups listed applied in the new manual sheets in use in October, 1953 (Evidence, pp.628-29).

Just one further extract from oral evidence is presented to indicate that the identity of mark-ups shown in the two previous extracts was not a coincidence.

Mr. Wonnacott of Hygrade testified as follows :

"Q. Now we [ the staff of the Director of Investigation and Research] have examined 925 instances in which prices were worked out through this particular manual you have [Serials 5992-6230 CST, copy of the 1950 issue of the

Container Statistics pricing manual] - and in which the mark-up was 5 percent - the period being September 11th 1950 to October 11th 1950 - now have you any doubt whatever that that was the practice of pricing at that time in your company - namely, to work the prices through the manual and to add 5 per cent?

A. No I have no doubt.

. . .

Q. Now I would like to ask you whether, about January 1951 and for some period - you remember developing prices as a practice, in your company, plus 5 percent - plus a 5 percent sur-charge added on to the face of the invoice?

A. I remember the practice of adding 5 percent as a sur-charge but the period of time I don't recall sir.

Q. Do you remember it was for some months?

A. I think it was.

Q. Now I refer you to serial 83624 a pricing sheet dated the 28th May 1951 - 2 HCL and 79408 2 HCL an invoice relating to the same - to the pricing sheet - preceding this invoice - dated the 29th June 1951 - now, without bothering to check that through the manual - since we have already done that - I would just like to draw your attention to the fact that there is one 5 percent mark-up on that - as we understand it - do you agree?

A. Yes -- I agree.

Q. And on the face of the invoice we have a 5 percent sur-charge over the price figures from the pricing sheet - do you agree with that?

A. That's right.

Q. And then I take it the  $3\frac{1}{2}$  percent down there refers to a one carload quantity?

A. Yes sir.

Q. Now does that recall to your mind that this 5 percent sur-charge continued from January to June 29th - of 1951 as a practice?

A. It doesn't recall to my mind -- I have to assume that that is the case, from the record sir.

Q. Would you be surprised then, if you found that there were two or three different ways of doing this during the period January to June 1951 - based on your own recollection ?

A. I would be surprised.

. . .

Q. Yes -- now as I said the price calculated on serial 83891 [dated May 28, 1951] - that is the price plus the mark-up - of 5 percent - is carried forward to the invoice serial 79929 [dated July 11, 1951] less  $3\frac{1}{2}$  percent - which I take it to be the one carload discount ?

A. Yes sir.

Q. Plus a 15 percent sur-charge - now do you recall a period in which that procedure was regularly applied ?

A. I do recall.

Q. And looking at this invoice 79929, did you regularly apply the sur-charge in that particular manner - that is after the carload discount had been taken off ?

A. I don't remember, but there -- from this it looks as though that was the procedure which was followed.

Q. You don't think that that was an exceptional instance of applying the sur-charge in that manner ?

A. I have no reason to think so.

Q. That invoice, I note, is dated July 11th 1951 - now I am producing to you serial 83980 2 HCL [price sheet dated October 8, 1953] - and serial 80068 2 HCL [invoice dated November 3, 1953] -- and I note that the invoice no longer carries a 15 percent sur-charge

A. That's right.

Q. But if you look at the pricing sheet serial 83980 - you will see that we now have a 5 percent mark-up - a basic total and a sur-charge of 15 percent added on to the price estimate sheet -- and the total - thereby arrived at - is carried forward to the invoice ?

A. That's right.

Q. Now do you recall from that, that from June 1951 right through to October 1953 - the same manual was used - and the mark-ups of 5 percent and 15 percent were regularly applied, as indicated by these several examples ?

A. I don't recall that the same manual was used but I have to assume from the exhibits that that was the case.

Q. And once again I ask you the same question - during this period from June 1951 to October 1953 - did you have a uniform routine of pricing orders ?

A. We did.

Q. You did not have haphazard pricing whereby one was priced one way and another was priced the other way?

A. No sir."

(Evidence, pp.777-84)

"Q. Now just keeping that volume [copy of the 1953 issue of the CONTAINER STATISTICS pricing manual] in front of you - serial 84222 [price sheet dated November 9, 1953] and 80507 2 HCL [invoice dated November 12, 1953] are now produced to you and those initials indicate that that came from the files of your company -- and I would like to ask you if 84222 is a price estimating sheet from your company's files, dated the 9th November 1953?

A. It looks as though it is, sir.

Q. Now we have developed various components of that price through the manual sheets in 2 CST - 2 - 2 and we note that a mark-up of 5 percent has been added and we note that the price of \$172.55 for a quantity of 2,000 has been carried down to the invoice -- now I would like to ask you whether that procedure was commonly used about the 9th November 1953?

A. I think it was sir.

Q. That is a standard procedure?

A. I think so."

(Evidence, pp.718-19)

Kraft Containers, Shipping Containers, and Hygrade were all located in the Ontario-Quebec "costing" zone.

8. Mr. Hayes's Activities in Connection with Freight Charges

There is evidence relating to certain activities of Mr. Hayes in connection with freight charges on shipping containers manufactured in New Brunswick, Nova Scotia and Quebec, and shipped to customers in Newfoundland. These activities are clearly shown by a series of documents which passed between Mr. Hayes, Maritime, and Wilson in 1949. As this documentation is very extensive, it will not be reproduced in full; only enough will be quoted to indicate the nature of Mr. Hayes's work on freight charges.

On January 3, 1949, Mr. Hayes wrote to Mr. Dunkin of Maritime and Mr. Roderick of Wilson a letter from which the following is extracted

"Now that Newfoundland is about to become the tenth province of Canada, it will probably be necessary to work out some method of costing shipments through this district, and as you and your Maritime competitor have undoubtedly been doing the majority of shipments to this district, I would very much like to get your reactions of how this problem should be handled.

. . .

Basically we have worked out a series of weight tables which are added to the selling price of the box and this becomes the laid down price in the districts where the freight charges are applicable. These freight charges are based on the standard weight of boxes which were established for use in Manual B. If this system were adopted you would figure your cost according to the R. R. book, putting on whatever mark-up you are using and then add the freight which might be the same for all of Newfoundland or different at different points

If you would like to see how this would work out, would you send me the cost, preferably per 100 pounds, in the various points in Newfoundland. This should include steamship freight and delivery from your plant to steamship and in railroad charges in Newfoundland

. . . "

(Serials 22709 MPH, 21921 WBF)



The President of Wilson replied to Mr. Hayes's letter on January 5, 1949 :

"Would you kindly work out for us, about the cost of cartons delivered to St. John's, NEWFOUNDLAND. We have been using regular costs as at December 1948, plus 10% and 5% -f.o.b. Saint John.

If we ship freight collect, it is based on \$1.29 per hundred weight for carload lot; and \$1.78 for less than carload lot.

We quite realize that our location would merit a higher rate than Halifax, and perhaps higher than Quebec or Montreal, but we believe that costs could be made up on the basis of a standard manual cost plus 10% and 5%, plus \$1.29 carload, or plus \$1.78 less than carload lot. It would probably be agreeable to all the shippers. We are not sure at this writing what the freight is from Halifax or from Quebec, but there may not be very much difference.

There is another matter which must be taken into consideration, that is the cost of wrapping and tying -- the old cost is certainly too low.

. . ."

(Serials 21922-23 WBF)

Mr. Dunkin of Maritime made a reply to Mr. Hayes on January 8, 1949 from which the following is extracted :

"We acknowledge with many thanks your letter of January 3rd, in connection with Newfoundland costs.

We have been following the R. R. Book in regard to all export orders, however, there are some discrepancies [sic] on which you can probably assist us. We know that our cost on wrapping is low as we figure it on a basis of 13¢ per thousand square feet, we then add our mark up which we currently figure at 8%, and finally add in the item of freight. We have been figuring 200# test stock on the basis of 155 lbs. per thousand square feet, 175# test stock at 124 lbs. per thousand square feet and 125# test stock at 100 lbs. per thousand square feet. The ocean freight from Halifax to St. John's, Nfld. is \$1.60 per hundred pounds and rail freight to practically all inland centres in Newfoundland \$1.68. We ask that you keep this information confidential and we know that you will do so.

It is our opinion that we obtain about 75% of the Newfoundland business and for that reason we are most interested in costs pertaining to this particular territory. . . .

. . . "

(Serial 22710 MPH)

Mr. Hayes's reply to Mr. Dunkin, dated January 10, 1949, contained the following passages :

"I acknowledge your letter of January 8th and the information therein will be kept confidential.

I have now sufficient data to work out new costs on wrapping which as you state, is away too low under the current costs. I note that you have been figuring 200 test stock on the basis of 155 lbs. The standard being used here is 140. 175 lbs stock you list as 124, the standard here is 120, and the 125 lb stock you list at 100 which is also standard here. The ocean freight and Newfoundland freight figures are acknowledged. Is there any addition in cost between your plant and the steamer dock? If so, these should be included. I note your mark-up for Newfoundland at 8%. If my memo is correct your mark-up for the Maritimes is  $12\frac{1}{2}\%$ . I was wondering why you used a different one for Newfoundland. It could be of course the meeting of American prices which will now be eliminated. Do you wish to go to the  $12\frac{1}{2}\%$  mark-up for this district?

I will work out a full summary of this whole situation and report to you with an idea of securing your full approval. After this it will of course be necessary to have some discussion with Montreal competitors but this is something we can work out later.

. . . "

(Serial 22711 MPH)

Mr. Dunkin wrote to Mr. Hayes on January 12, 1949 as follows :

"Many thanks for your letter of January 10th, with reference to Newfoundland Costs.

There are no additional costs other than wrapping and freight on Newfoundland orders unless you consider the charge of wharfage which we think can be eliminated, as it amounts to only 50¢ per ton. The reason we have been using the 8% mark-up is not only because of American competition, but also competition from Montreal. We th

we are correct in believing that the Montreal mark-up is generally figured in the vicinity of 5% and for that reason I, personally, so long as this situation exists, do not think it would be wise to go to the 12½% mark-up, but this matter will be discussed further when Mr. Stairs returns to town next week.

. . ."

(Serial 22712 MPH)

On January 24, 1949 Mr. Hayes was able to send out a Preliminary Report on Newfoundland. Although this Preliminary Report is not in evidence, Serial 22714 MPH, a letter from Mr. Hayes to Mr. Dunkin of Maritime, dated January 24, 1949, said :

"I am enclosing Preliminary Report on Newfoundland, . . ."

Mr. Dunkin's letter to Mr. Hayes, written February 2, 1949 dealt with several of the matters which were the subject of the correspondence previously shown in this section and included the following :

". . .

We are, therefore, inclined to think that an uniform cost [handwritten amendment] could be established for all points in Newfoundland on the main line of the railway, and in view of the fact that the maximum amount, for rail shipment, is only 16¢ per hundred pounds greater than water transportation to St. John's, we would probably be agreeable to the establishment of an average uniform f.o.b. cost to any main line railway shipping point in the island, including St. John's. In view of our remarks will you please give us the benefit of any additional thoughts you may now have in regard to this matter.

. . ."

(Serials 22718-19 MPH)

Mr. Hayes's reply of February 4, 1949 makes reference to cartons being shipped from Ontario into St. John's, Newfoundland. Then it goes on to say with respect to freight rates :

". . .

I am afraid I have not made myself quite plain in the suggestion of using St. John [sic] Newfoundland as the F. O. B. point in this province. Your rate into St. Johns [sic] by water is \$1.60, car

load or L. C. L. If you are shipping to the other end of the island I assume you would do it through North Sydney and if your point of destination was St. Andrews [sic] you would undoubtedly ship by Port Aux Basque [sic] at a rate of \$1.68 laid down St. Andrews. My proposal was, that you would either pay or allow \$1.60 of the freight and let the customer pay the remaining 8¢. We are quite willing to take your opinion on this subject but it struck me that particularly [sic] on L. C. L. shipments, although you watched carefully to get the lower rate either by ship to St. John and then the destination or by Port Aux Basque to destination, in either case there might be some deliveries where the freight might run considerably over the \$1.60 which we made in our proposal [sic].

. . ."

(Serials 22720-21 MPH)

On February 7, 1949 Mr. Dunkin indicated his agreement with Mr. Hayes's suggestion regarding freight to Newfoundland :

". . .

We are now in agreement with all your comments. We see no objection whatever to your suggestion of charging customers who are located on the railway with the excess freight which applies over the laid down St. John's cost or alternatively having shipments go forward charges collect and allowing [sic] \$1.60 per hundred from the face of the invoice."

(Serial 22722 MPH)

Further correspondence passed back and forth between Mr. Hayes and Mr. Dunkin and Mr. Hayes and Mr. Roderick. On February 9, 1949 Mr. Hayes, in a letter to Mr. Dunkin, indicated that

". . . all I need to know before attempting to consolidate the whole picture, is a decision on your part as to whether you prefer to use 8% or 10% M. U.

. . ."

(Serial 22723 MPH)

Mr. Dunkin, in his reply of February 12 indicated that he would like to adopt an 8 per cent mark-up on business into Newfoundland (Serial 22724 MPH). Mr. Hayes, writing to Mr. Roderick on March 1, 1949



proposed using a freight rate into Newfoundland of \$1.60 per hundred pounds and advised Mr. Roderick that the use of his current Ready Reckoner with a mark-up of 8 per cent would keep him competitive in the Newfoundland district (Serial 21965 WBF). On the same day he sent Mr. Dunkin a draft of the proposed freight costs to Newfoundland (Serial 23492 MPH), which was acknowledged by Mr. Dunkin on March 8 (Serial 23493 MPH). Mr. Dunkin's letter included the following reference to the weight basis of the adhesive used in manufacturing combined board :

" . . .

The only comment we have to make is in regard to the weight basis of Silicate of Soda. Currently we are using more than four and eight pounds of Silicate of Single and Double Faced Stocks respectively, but we realize that we must get our machine into proper working condition to be competitive in this regard.

. . . "

(Serial 23493 MPH)

Mr. Roderick, on March 10, wrote to Mr. Hayes :

"Thank you for your letter of March 1st, and the information contained therein.

The list of costs at the \$1.60 freight rate is satisfactory to us, and we will be glad to adopt these costs and other figures you have included in the list.

As we understand it the freight rate of \$1.60 will be used for both car lots and less than car lots, for all shipments to St. John's, Newfoundland. In talking with the freight agent today he named us rates of \$1.29 $\frac{1}{2}$  via North Sydney on C. L. lots and L. C. L. rate is quoted at \$1.68 [this figure is not clear] -- but he thinks that these rates may change a little after April 1st.

. . . "

(Serial 21967 WBF)

Mr. Hayes replied to both these letters on March 14 (Serials 22707 MPH, 21968 WBF). In his reply to Mr. Dunkin, Mr. Hayes made the following remarks about the assumed weight basis for adhesive :

" . . .

In reply to your letter of March 8th, we acknowledge receipt of booklet on freight rate charges to Newfoundland. In reference to



the weights used for silicate of soda which, as you say, runs approximately 4 lbs. on single faced, 8 lbs. on double faced, it is necessary for users of silicate, even though their silicate weight might run over this amount, to be competitive with those using starch where the weight per thousand square feet is considerably less. I think that when you get your machines adjusted you will be able to get down between 8 and 9 lbs. of dried silicate weight per 1,000 square ft.

. . ."

(Serial 22707 MPH)

Mr. Roderick of Wilson, writing on March 18, 1949 to Mr. Hayes said :

"As requested, we are returning the 'Draft of proposed freight costs to Newfoundland'.

We approve of these and it will be satisfactory to us if it can be made universal.

We have about decided that our mark-up to Newfoundland should be 10% and 5%, to cover the cost of commission in Newfoundland. If you can pass any advice along to us as to what you think these mark-ups should be, we will be obliged to you."

(Serial 21969 WBF)

On March 22 Mr. Hayes replied :

"I acknowledge your letter of March 18th, returning the draft of proposed freight costs to Newfoundland. There is every indication that the use of these costs will be universal.

With reference to your suggested markup of 10% and 5% on your shipments to Newfoundland, this will be fine if you can get it but I am afraid the competition from Quebec, particularly Montreal where the freight into Newfoundland is the same as yours, will hold you to a markup of 8% if you wish your prices to be competitive.

(Serial 21970 WBF)

The end result of all this negotiation is discussed in the Statement of Evidence as follows :

"150. Ready Reckoner tables headed 'Freight Costs to Newfoundland

F. O. B. St. John' were printed and issued (Serials 6763-8 CST). These were being used by MARITIME in pricing orders by April 6, 1949 (Serial A29908 2 MPH). These tables give a list of weights per M. square feet for various combinations of liner and corrugating material under the heading 'An Accurate Record of Weight per M. Square Feet on all Grades of Single Faced, Single Wall and Double Wall Corrugated Board are shown below'. In fact these are not accurate records of weight but arbitrary [ sic ] weights based upon specific grades of kraft board at the average weights assigned to them by the Trade Customs of the Paperboard Industry. Actual shipments vary according to the tolerances set out in Trade Customs.

As was mentioned in one of the letters quoted above, the weight was also based upon some average weight for adhesive, which varies considerably depending upon actual amounts of adhesive applied and upon whether starch, silicate or some other of the numerous grades of adhesive is used. These arbitrary weights were then used to establish Ready Reckoner tables based upon the rate for water shipments from Halifax to St. John's. This arbitrary rate ignored the existence of much lower carload freight rates by rail via North Sydney. Finally the mark-up was established at 8 per cent which, although below the  $12\frac{1}{2}$  per cent mark-up then used in the Maritimes, was 3 per cent higher than the mark-up current in Montreal, the source of some shipments to Newfoundland . . . "

(Statement of Evidence, Vol. II, pp.316-17)

A revision of the so-called freight costs to Newfoundland appeared shortly after their introduction. The documentation dealing with this matter has been dealt with previously in the section of this chapter dealing with the evidence on the communication of mark-ups (Serial 23506 MPH).

The foregoing evidence shows that in 1949 Mr. Hayes initiated and carried through negotiations with firms with a view to establishing uniform freight charges to be put into effect by shipping container manufacturers in the Maritimes, applicable on shipments to Newfoundland. The evidence shows that Mr. Hayes advised these firms of the mark-ups which would be appropriate in that market. He kept Wilson and Maritime informed of the maximum mark-ups and prices they could afford to charge in Newfoundland if they were not to lose business in Newfoundland to firms located in Montreal.

## 9. Interregional Price Relationships

There is some evidence of Mr. Hayes having, at least during 1948, informed firms in Western Canada and in the Maritime Provinces of mark-ups, prices and discounts from selling prices in various "costing" regions and of freight rates between places of manufacture in one "costing" region and destinations in other "costing" regions. Several documents in evidence are of this sort.

One example is an unsigned memorandum from Mr. Hayes headed "NOTES ON THE SUMMARY AND COMPARISON OF COST AND COMPETITIVE PRICES TORONTO - VANCOUVER - ALBERTA - WINNIPEG DATED JUNE 12TH 1948". This was a revision of calculations referred to in another document (Serials 24231-34 CPO). This memorandum and the attached schedule are as follows :

"Item 1 represents the selling price in Toronto to-day, with item 2 and item 3 the one car lot price and two car lot price respectively. Item 4 is the freight Toronto - Alberta, and 5, 6, and 7, are laid down price Alberta. Item 12 is freight Toronto to Winnipeg, and items 13, 14, and 15 are laid down price Winnipeg from Toronto. Items 16, 17, and 21 show suggested selling prices Winnipeg using to-day's material conversion plus 15 and mark-up of 10%.

You will note that the comparison of the one car and two car lots shows that the Winnipeg selling price would be a few cents higher than in Toronto laid down price on the first three items, or up to about a carton of 7,500 feet. Beyond that Winnipeg is a little lower. I don't [sic] believe that this difference will have an effect.

I am assuming that Vancouver may be working on a material cost  $7\frac{1}{2}\%$  higher than is now being used and in such case the information contained in the summary of June 1st, items 24 -33 would be correct and items 31, 32 and 33, using mark-up of 15%, would still be competitive with Toronto laid down prices as shown in items 23, and 25 of the June 12th summary. This however, does not apply to Alberta and I would suggest that if prices are to be competitive in Alberta, plan 2 with a 10% mark-up shown under items 18, 19 and on both summaries, is about the highest that could be used, and this establishes a price in Alberta slightly over the laid down Toronto price but only by a few cents and will also co-relate [sic] the Winnipeg prices with the freight into Alberta.

Until such times as there is a change in the Toronto price, it would not be advisable to discontinue either a  $3\frac{1}{2}\%$  or 5% discount in Winnipeg or Alberta.

It is hoped that the Toronto price will be adjusted shortly, and at such times it would be necessary to re-adjust the Winnipeg price and at the same time, discounts could be either held to the 3½% or eliminated completely in both territories. I might add, there is a rapidly growing desire to eliminate the 5% discount in Ontario.

FCH/JS

JUNE 12 - 48

SUMMARY & COMPARISON  
COSTS & COMPETITIVE PRICES  
TORONTO - VANCOUVER - ALBERTA - WINNIPEG

	2500	5000	7500	10000	12000	14000	16000
SQ.FT.	2500	5000	7500	10000	12000	14000	16000
WT.PER M.	350	700	1050	1400	1680	1960	2240
DEPTH	6	8	10	12	12	14	16
<u>TORONTO</u>							
S.P. Oct.1-47	34.05	55.35	79.00	103.45	122.55	142.50	162.85
Minus 1 C/L 3½%	32.85	53.40	76.20	99.80	118.25	137.50	157.15
Minus 2 C/L 5%	32.30	52.55	75.05	98.25	116.40	135.35	154.70
Ft. Toronto-Alberta	7.73	15.47	23.26	30.94	37.03	43.32	49.50
F.O.B. Alberta [1]							
Under 1 Car	41.78	70.82	102.26	134.39	159.58	185.82	212.35
Car Lot	40.58	68.87	99.46	130.74	155.28	180.82	206.65
2 Car Lot	40.03	68.02	98.31	129.19	153.43	178.67	204.20
Ft. Winnipeg-Alberta	3.64	7.28	10.92	14.56	17.47	20.38	23.29
F. O. B. Alberta							
Under 1 Car	43.07	72.98	105.17	137.91	163.72	190.63	217.84
Car Lot	41.68	70.68	101.87	133.56	158.57	184.63	210.99
2 Car Lot	41.09	69.72	100.98	131.76	156.43	182.14	208.11
Plan 2 - 10% M.U.							
Under 1 Car	42.73	72.30	104.13	136.15	162.04	188.64	215.62
Car Lot	41.23	69.76	100.48	131.77	156.36	182.07	208.07
2 Car Lot	40.59	68.68	98.92	129.72	153.93	179.24	204.83
Ft. Toronto-Winnipeg	4.83	9.66	14.49	19.32	23.18	27.05	30.91
F. O. B. Winnipeg [1]							
Under 1 Car	38.85	65.01	93.49	122.77	145.73	169.55	193.76
Car Lot	37.68	63.06	90.69	119.12	141.43	164.55	188.06
2 Car Lot	37.13	62.21	89.54	117.57	139.58	162.40	185.61

[continued on next page]



SUMMARY & COMPARISON  
COSTS & COMPETITIVE PRICES  
TORONTO - VANCOUVER - ALBERTA - WINNIPEG (cont)

ITEM	SQ.FT.	2500	5000	7500	10000	12000	14000	16000
	WT.PER M.	350	700	1050	1400	1680	1960	2240
	DEPTH	6	8	10	12	12	14	16

WINNIPEG

	June 12 Mat.							
	Con. 15	[1]						
16	M. U. 10%	39.43	65.70	94.25	123.35	146.25	170.25	194.55
17	1 Car Lot	38.04	63.40	90.95	119.00	141.10	164.25	187.70
21	2 Car Lot	37.45	62.44	90.06	117.20	138.96	161.76	184.82
		[1]						
22	Ft. Toronto-Vancouver 8.47	16.94	25.41	33.88	40.65	47.43	54.20	
	F.O.B. Vancouver							
23	Under 1 Car	42.52	72.29	104.41	137.33	163.20	189.93	217.05
24	1 Car Lot	41.32	70.34	101.61	133.68	158.90	184.93	211.35
25	2 Car Lot	40.77	69.49	100.46	132.13	157.05	182.78	208.90

[1] At these points there occur rows of pencilled figures which are not shown in the above as their authors is in doubt.

(Serials 24237-38 CPO) "



The foregoing evidence makes it clear that any firm receiving this document would have exact information of the maximum prices which could be charged in Alberta and in Manitoba and which would still meet the competition from Toronto and Vancouver firms. Conversely, manufacturers in Winnipeg would have a clear notion of what "costing" factors from the Container Statistics manual (the edition applicable to operations in the Prairie Provinces ) would be appropriate in order to quote prices competitive with those on boxes originating in Toronto or Vancouver.

Further documents of this sort are in evidence. One group of them deals with costs, mark-ups and freights in the Alberta area in July, 1948. Part of this has already been referred to in a previous section of this chapter. It embraces Serials 24244-46 CPO; 9158, 9161-62 HBL; and 8162 MPP, 8156-57 MPP). Again, a document entitled "SUMMARY AND COMPARISON COSTS AND COMPETITIVE PRICES MONTREAL - MARITIMES" dated October 4, 1948 sets out the relationship between prices, freight rates and mark-ups in the Montreal area and the Maritimes and the freight rates from Montreal to the Maritimes (Serials 22727-28 MPH).

10. Obtaining Information About a Competitor's  
"Costs" and Prices

There is a good deal of oral evidence which indicates that companies sought to ascertain the prices at which particular boxes were being quoted or sold by one of their competitors. This was done by :

- (a) Inquiry through Mr. Hayes.
- (b) Direct Comparison of "Costs" with another company.

We shall cite evidence on each of these methods in turn.

a) Inquiry Through Mr. Hayes

Mr. Turner formerly of Canadian Wirebound was examined on this matter.

"Q. . . . have you had occasion during the period from the end of the war to the present time, to get in touch with Mr. F. C. Hayes?

A. Yes.

Q. And for what purpose ?

A. (Pause) -- To clarify the cost operations on outsize cartons.

Q. And is that all?

A. (Pause) It is my present recollection this was the main reason for any contact I had with him.

Q. Now you say it was the main reason -- what other reasons were there be?

A. That was the only reason I can recollect -- I can't recollect any other reason at the present time."

(Evidence, p.1949)

"Q. All right - Mr. Turner - did Mr. Hayes ever call you to ask you for your costs built up with respect to any specific order?

A. Would you read my answer there - the last sentence ---

REPORTER READS BACK WITNESS'S LAST ANSWER.

A. --(pause) --- I want to answer your question and get it off the mat - I wasn't being evasive in what I put down there -- because that was exactly what happened and if I may refer to my Counsel here ---

OFF THE RECORD .

A. Mr. Hayes did on occasion request cost data.

MR. FORGET - In respect of any specific order?

A.. If I say any specific customer would that be answering you Mr. Gascoigne ?

Q. What distinction do you make between customer and order in this connection?

A. It might have been a prospective order --

Q. Well, prospective order or quotation or ---

OFF THE RECORD .

A. Mr. Hayes did phone me -- what were my last words?

REPORTER READS BACK EVIDENCE

A. -- or orders in hand.

Q. And on those occasions did you supply Mr. Hayes with the build-up of your costs?

A. Yes.

Q. Did Mr. Hayes tell you the purpose of his call -- that is - why he wanted this information?

A. No - he did not - according to my recollection.

Q. Did he ever ask you for information and tell you that it was for another competitor?

. . .

Q. According to your recollection he did not mention competitors' names - did he mention that it was for a competitor -- without mentioning a competitor's name?

A. He always stated that this information was for himself.

Q. Has it been your understanding in the period - since Container Statistics began to operate - that Mr. Hayes was the clearing-house for information as to how costs were built up by the various competitors?

A. Yes.

Q. And when you gave him that information did you expect that that would be the use to which it was put?

A. Any information that I gave to Mr. Hayes - as much as I can recollect - it was for his own reference - and that might contradict what you just said before.

Q. I was going to ask you another question - and that is, when you asked Mr. Hayes for cost data, on some specific design of box, related to a specific order or quotation - did you understand that that was the same cost data as some other company was using?

A. Would you repeat your question again?

REPORTER READS BACK LAST QUESTION.

A. I had no means of knowing - that his response to my questions would be the cost data of any other customer -- any other competitor.

Q. Did Mr. Hayes never tell you that some other company had quoted or had sold on the basis that he was giving you?

A. He did mention names himself.

Q. And in what connection did he mention names?

A. In order to clarify the designation of the use for the carton.

Q. Well now - look Mr. Turner -- what do you mean -- let's talk plain English about this -- did Mr. Hayes -- what names did Mr. Hayes mention - did he mention the name of the competitor or did he mention the name of the customer -- or what names did he mention?

A. He mentioned names of the customer - as an identification for the carton contents.

Q. Would you just let us have that question again so we can get an answer to it ---

REPORTER READS BACK LAST QUESTION.

A. Yes -- he told me that that -- that the costs which he gave me were based on actual operations at several corrugated plants - and mentioned their names.

Q. And did you act on those costs in submitting your own quotes or pricing your own order?

A. Yes - we did if they were in agreement with our own available manufacturing operations.

Q. Well now - did you ever quote below the figures that he gave you?

A. (Pause) --- The figures Mr. Hayes generally gave me were generally base figures.

Q. Well I expected you to say that Mr. Turner --- I would like to ask you whether you ever quoted below the figures that he gave you, plus the regular mark-up in effect in your company?

A. We used his figures as a guide.

MR. FORGET : I think the question was Mr. Turner whether you ever quoted below those figures.

Q. Below the figures marked up by your regular mark-up?

A. No -- according to my recollection. According to the best of my recollection."

(Evidence, pp.1953-56)

Similarly Mr. Oyler, formerly of Corrugated Paper Box, testified that he called Mr. Hayes to ascertain the correct method of calculating prices. He contacted Mr. Hayes when he heard that his prices were being undercut and asked Mr. Hayes to check over the other firm's prices. Mr. Hayes did this.

"Q. Now - in connection with your job with Corrugated Paper Box - did you have occasion from time to time to get in touch with Mr. Hayes?

A. I did - yes.

Q. For what purpose, Mr. Oyler?

A. Comparing costs.

Q. Comparing costs --

A. In the manual and the method of figuring of price.

Q. Now -- would you elaborate a little bit on your answer?

A. There are quite a number of styles of boxes used in the industry and in determining a formula for arriving at a given size of box there are a number of square feet - a thousand boxes at a given size of a given style -- I had occasion to call him to find out whether or not I was following the right formula.

. . .

Q. I see -- so that your principal reason for getting in touch with Mr. Hayes was to determine the correct area to use?

A. That is correct.

Q. Did you get in touch with Mr. Hayes on occasion for any other purpose?

A. Yes I did.

Q. And what was that purpose?



A. Having him review my costs -- I would give him a box size and tell him that I had figured it such and such a way and that I had come up with a certain base price and I asked him to double check me on it.

Q. I see -- and did Mr. Hayes ever call upon you to supply figures on a certain box - in order that he might check them?

A. On costs - yes.

Q. Did he tell you why?

A. I don't remember.

Q. Did he ever say to you that 'we have had a complaint that you are under-cutting some other company in price and I would like to check your figures in that respect'?

A. I don't remember that.

Q. Did you ever get in touch with Mr. Hayes when you had heard that somebody was undercutting you and ask him to check over the other firm's figures?

A. Yes I believe I did.

Q. And with what result -- did he check them for you?

A. Yes."

(Evidence, pp. 851-54)

Most of the foregoing evidence of Mr. Oyler has already been quoted in Section 5 of this chapter.

Similarly, Mr. Love of Dominion Containers and Standard, testified as follows:

"Q. What did you contact him [Mr. Hayes] about -- you say technical matters - what are they?

A. I believe I have been in contact with him about -- how will I put it -- different ways of making a box --

Q. Do you mean by that you have been in touch with him about specifications?

A. Specifications.

Q. Of some boxes you were making?

A. That's right.

Q. Yes -- go ahead --

A. I have also had occasion, when the sales staff report that our pricing is rather high in a given instance, I have asked him to check that our estimating department was not making a mistake.

Q. And has he ever called you to ask you about your price estimating?

A. He has called me to ask me for the price of a given specification - yes.

Q. And did you give him that information?

A. I have.

Q. And when you called him, did he give it to you?

A. Well he told me that our figures were right - if they were.

Q. And did he tell you whether your prices were right?

A. According to the book we were right.

Q. And supposing you were wrong - what did he do?

A. I don't remember any instance having arisen when we were but I imagine - and this is conjecture - that he would tell me that according to the book and his way of figuring I wasn't right - or our price wasn't right.

Q. You say you don't remember that ever having happened?

A. I honestly don't.

Q. And every time he called you that way - you gave him the information he asked for?

A. - I gave him the information he asked for."

(Evidence, pp.1521-22)

Similarly, Mr. Dubois, also of Standard, testified that he called Mr. Hayes to check on a price and that he had been instructed to do so by Mr. Moisan, Jr., President and General Manager of Dominion Containers and Standard.

On another occasion Mr. Hayes requested the price of a specific item for a specific customer and the information was supplied in a letter written to him on December 26, 1950 by Mr. Lambert also of Standard :

"Following our telephone conversation of last week, the price of box number 45 re : B. R. Limited was \$424.35 for the old printing with 492 units and is now \$425.60 for the new printing with 620 units, which consist of a solid diamond with name in reverse.

Hoping this information will meet with your requirement, we remain, "

(Serial 16494 SPB)

In connection with this letter, Mr. Lambert testified as follows :

"Q. . . . do you remember from time to time Mr. Hayes requested you to supply him with the price on a box which you had quoted or supplied to customers ?

A. Well no - not necessarily supplied - quoted maybe - but not necessarily supplied - I know that he did that --

Q. And can you remember how frequently that happened -- was it a frequent occurrence ?

A. Well I wouldn't say too frequent - it may be sometimes once a month - some other time maybe in the same month three or four times, but I mean, not that often."

(Evidence, pp.2197-98)

The foregoing evidence shows that Mr. Hayes was often asked by a particular firm to ascertain for it the price currently being charged by a competitor in a particular pricing zone for a particular construction of box. On such occasions Mr. Hayes made inquiries from another firm or firms which were selling in the same pricing zone and passed the desired information on prices back to the firm which had made the original request. Even if all that was ascertained by the inquiring firm was a competitor's handling of manual costs this was the equivalent of learning the competitor's price, for competitors in a given pricing zone used uniform mark-ups and uniform sets of pricing components ("costs") drawn from the manual of Container Statistics.

As has been shown in section 5 of this chapter, part of Mr. Hayes's activities consisted of consultation designed to assist the firms' use of the manual in a uniform manner, i.e., so that all would use exactly the same "cost" components in pricing an order of given volume for a particular box. Consulting Mr. Hayes on particular prices may have been for the purpose of clarifying the niceties of the "costing" process, but the foregoing evidence, while not conclusive, suggests that it was also for the purpose of seeking to ensure uniformity of pricing and the observance of certain "cost" components and mark-ups by rival firms.

(b) Direct Comparison of "Costs" with Another Company

On this matter, Mr. Dubois of Standard testified as follows :

"Q. In connection with your job in estimating prices do you ever have occasion to get in touch with the men who do pricing at the other competing box plants ?

A. Sometimes.

Q. And in what connection then - do you have to get in touch with them ?

A. To check how they can manufacture at prices lower than ours.

Q. If you have calculated a price and you find that it is different from what is reported to you as having been quoted by a competitor - you then get in touch with that competitor do you ?

A. Not all the times.

Q. Not all the time - but you do it quite often ?

A. Two or three times per month.

Q. Two or three times per month -- now who are the people with whom you get in touch at the various companies ?

A. At the Bathurst Company - which is Shipping Containers - Mr. LaRocque. At Hinde and Dauch Mr. Nadeau - and with the Sherbrooke Paper Products Mr. Giguere.

Q. Anybody else ?

A. No - that is all.

Q. Does that represent all your competitors in this area?

A. No -- we got Gair - Acme - but we never get in touch with them.

Q. That represents all your -- oh - I see, when you say Gair and Acme, you are thinking of Gair and Acme branches in the city of Montreal?

A. Yes sir.

Q. You never get in touch with them?

A. No - never.

Q. And what about Canadian Wirebound Boxes when it was operating as such?

A. Oh yes -- yes - I used to get in touch with Turner.

Q. And do you now?

A. No - not any more because Wirebound is a branch of Bathurst.

Q. Now do these men in their turn get in touch with you from time to time?

A. Sometimes.

Q. And has that been frequent?

A. Yes.

Q. And what do you think of as being frequent - two or three times a week -- several times a day or several times a week?

A. Oh no - no -- several times a year.

Q. And is this also for the purpose of checking on how you develop a price?

A. Yes.

Q. And who instructed you to get in touch with these people if you had such difficulties?

A. Mr. Lambert.



Q. Anybody else?

A. Mr. Moisan.

Q. Is that Mr. Moisan Junior or Mr. C. M. [N] Moisan Snr?

A. C. M. Moisan Snr.

Q. How about C. M. Moisan Jnr?

A. Jnr. too. "

(Evidence, pp.1585-87)

Similarly, Mr. Lloyd, Sales Supervisor, of Canadian Wirebound, testified as follows :

"Q. And have you on any occasion contacted the man in charge of pricing in the competing companies ?

A. Yes.

Q. And what was the purpose of that contact?

A. To check the price.

Q. Did that happen frequently?

A. No sir.

Q. Did you check with them on every occasion when you found that their prices disagreed with yours?

A. No sir - no sir.

. . .

Q. And who were the pricing men in the other companies whom you contacted ?

A. Mr. Grant at Gair Company is the only one I recall talking to.

Q. Do you recall talking to him frequently?

A. I would say possibly half a dozen times at the outside.

Q. And he is the only one?

A. Wait a minute now -- I think once I talked to Mr. Carter of H & D - about a price, if I can recall correctly.

Q. Did you during the period before Bathurst took over your company, ever get in touch with the Kraft Containers people at Hamilton?

A. On prices?

Q. Yes.

A. I didn't sir, no."

(Evidence, pp.302-04)

Similarly, Mr. Turner, also of Canadian Wirebound, testified that he called on occasion men responsible for pricing at his competitors in Montreal. He specifically named Mr. Lambert of Standard but could not be sure of the man in Hinde & Dauch whom he contacted. Some of his further testimony is as follows :

"Q. Now - what was the purpose of getting in touch with these people?

A. To bring up the question of individual costs in connection with special corrugated products and in answering like that - this is the record -- oh, I don't say whether it is off the record or not I understand that --- I have been in these things before --- in parenthesis - I was answering you like that to show that it was connected with regular size cartons ----

Q. Perhaps you would like ---

A. I would like to repeat that for you ---

Q. No -- perhaps you would like to elaborate a little bit on it -- I understand what you say is that with respect to the standard run of the mill cartons you wouldn't have contacted the men --- but that when you had some special products --

A. Special products - yes - and the question of handling the costs came up --

Q. Do you mean by that how to calculate the costs through the manual when you had certain, special products to develop costs on?

A. It was to set up costs on factory operations on which the manual did not show a clear picture.

Q. Was that in cases where the manual was silent as to the costs on special products -- the manual just didn't provide for costing certain factory operations?

A. (Pause) -- yes - as a matter of fact where the manual did not provide costing operations for specially designed cartons.

Q. Could you give us some examples of the nature of the special products that you are thinking of --- and the nature of the operations that would not be provided for?

A. Displays -- operations in connection with displays ----

. . .

Q. Now I take it that these discussions that you had about costing, with the pricing people in the other companies, was not a one-way street - but that they also called you for assistance?

A. Yes. "

(Evidence, pp.1935-40)

Similarly, Mr. Litteljohn, formerly President of Kraft Containers, testified that he checked with his competitors on manual cost components and in return received calls from his competitors on the same subject, and on some occasions the firms he called supplied him with the information. In some cases he was not given the information. When competitors called him with regard to the use of costing components from the manual he said that he did supply them with the information they requested (Evidence, pp.5620-24).

Here again, just as in subsection (a) consultation between companies concerning the "costing" or pricing of particular products may have been for the purpose of clarifying the manual "costing" process, but the evidence suggests it was also aimed at ensuring uniformity of prices.

## 11. The Use of Standard Lists for Pricing

A group of instruments used by the firms associated through Container Statistics Limited or F. C. Hayes were known as the "standard lists". The Statement of Evidence says the following about them.

"245. A special feature of the CONTAINER STATISTICS system of pricing, which also descended from the C. M. L. [Container Materials Limited] period, was the preparation and distribution by Mr. Hayes of what were known as Standard Lists (Evidence pp.4494-6, 4656-7, 4694-4728). Such lists were prepared for single-faced corrugated rolls, containers for the canning industry (commonly referred to as 'canners' cartons') and containers for the brewing industry (commonly referred to as 'brewery cartons' or 'beer cartons'). Other lists of lesser significance prepared from time to time included egg containers, chick boxes, unity jar containers and wine bottle containers. The lists were of three types : (a) cost lists, which set out the total of the manual factors for each size and style of container and which were total price before the addition of the mark-up; (b) price lists which set out the selling price of each size and style of container as calculated through the pricing manual plus the zone mark-up; and (c) the single-faced corrugated rolls list, which could not be calculated through the manual because it involved a quantity-price structure incompatible with the manual system of pricing (Evidence p.4718).

(Statement of Evidence, Vol.I, p.164)

This report deals only with the three main groups of standard lists, namely, those for single-faced corrugated rolls, canners' cartons, and brewery cartons. Container Statistics prepared such lists for use in Ontario, Quebec and the Maritimes. The evidence does not establish that they were prepared for other price zones.

### (a) Standard Lists for Single-faced Corrugated Rolls

Mr. Hayes's evidence shows that he prepared standard lists for single-faced corrugated rolls applicable to various dates. His evidence included the following :

"Q. Did you make a number of such lists during the years since you began Container Statistics Limited ?

A. I made a great many lists - I think to a point where I tried to get out some costs on single faced costs and I gave the whole single faced roll question up as unsolvable - an unsolvable proposition from a cost angle.

Q. During the period when you were making up these lists did you generally circulate them?

A. No -- I don't think so - there was quite a few that I didn't circulate single faced information to.

Q. Can you tell me to whom you did circulate it?

A. Well it would go to Acme probably - Dominion, while they were clients of mine - and Hendershot - Gair - H and D -- I believe that would be them.

Q. Were they the only manufacturers of single faced rolls?

A. Oh no - other people made them.

Q. Did you never send them to Canadian Wirebound?

A. I may have.

Q. Might you have sent it to any of your clients -- is that what you are saying?

A. I don't recall - no -- "

(Evidence , pp.4714-15)

The evidence shows that such single-faced corrugated roll lists of standard prices were found on the premises of many firms. The Statement of Evidence says :

"248. It appears that when CONTAINER STATISTICS started it was contemplated that these lists would be part of the Ready Reckoner. Serial 13633 HDT, headed Single-Faced Rolls, is a table of figures in different quantity brackets. In the margin there is typed : 'MAT. PLUS CONV. PLUS 10% M.U.', i.e. material, plus conversion plus 10% mark-up, and at the bottom 'SUGGESTED SELLING PRICE'. The foot of the page identified it as part of the 'Container Statistics Ready Reckoner'. In handwriting there is the further marginal notation 'see revised list 7½% M.U.' None of the manuals in their final form apparently included such a page. . . .



249. Serials A25258-9 DCT are two tables from the files of DOMINION CORRUGATED headed 'Single-Faced Rolls', one being for rolls backed with .009 caliper and the other .016 caliper board. The figures in the first table result from the revision of Serial 13633 HDT in accordance with the marginal note thereon, i.e. by a reduction in the proportion of 107.5 to 110. These tables are not identified on their face as Ready Reckoner Sheets, nor as suggested selling price lists. . . .

250. A list headed 'Dominion Corrugated Paper Co. Ltd. Corrugated Roll Schedule .009 Backing - October 27/48 - Ontario and Quebec' is in evidence as Serial A25291 DCT. This list is a price list bearing figures identical with those in Serial A25258 DCT. Another list from the files of HINDE & DAUCH is also identical as to prices and is dated 'Effective October 11, 1948' (Serial 13646 HDT).

251. A list from HENDERSHOT, 'Effective October 7, 1948', bears prices lower than those in the lists referred to in the last paragraph. This is the only document in evidence appearing to be a corrugated rolls price list of one of the companies which differs from those of others applicable to the same price period (Serial 17983 HPH).

252. An unsigned memorandum dated September 1, 1950, which Mr. Hayes said he wrote (Evidence, pp.4715-16) was attached to a single-faced corrugated roll price list in the files of DOMINION CORRUGATED. This memorandum reads in part as follows :

'ENCLOSED :

. . .

Single Faced Roll Selling Price List.

We suggest you make your own price list from this sheet and then destroy the enclosed.'

(Serials A25311-5 DCT)

Copies of this memorandum and/or of the attached price list were also found at ACME, CORRUGATED PAPER BOX, CANADIAN WIREBOUND, STANDARD, GAIR and SHIPPING CONTAINERS (Serials 24494, 24538-9 APT; 12001-2 CBT; 16446 SPB; A23174 3 CPO; 88193-4 GCL; 21139, 21519-20 SPL). On being asked if he had prepared the price list, he replied as follows :

'A. I prepared many sheets like that [ Serials A25314-5 DCT ] - whether I prepared those or not I wouldn't like to say.'

(Evidence p.4716) "

(Statement of Evidence, Vol.I, pp.165-66)

These price lists were created because single-faced corrugated rolls could not be priced through the use of the manual. This is shown in the testimony of Mr. Hayes who was being examined on Serials 25330-32 DCT (from the files of Dominion Corrugated) dated January 1, 1951:

"Q. Now with respect to serial 25330 do you say that you prepared that - or the original of that?

A. From the looks of it I did.

Q. How about 25331 and 25332?

A. That I believe I prepared.

Q. What were they intended to be?

A. Well I don't know what they were intended to be -- whether that is cost or price.

Q. Well now - if you had a manual could you develop those prices?

A. No - you can't develop single faced rolls through a manual - that is the difficulty."

(Evidence, p.4718)

With respect to the single-faced corrugated rolls lists, Mr. Hayes denied that these were intended to be price lists. Mr. Hayes was shown Serials A25360-61 DCT (from the files of Dominion Corrugated), a single-faced rolls list dated October, 1953 and asked if he prepared it. His evidence was as follows:

"A. It is possible - yes -- yes, I prepared that.

Q. I notice that there were several things common to all these lists we have looked at -- and one of them is that you have 1-4, 5-24 and so on, across the top - I take it this is quantity of rolls?

A. That's correct.

Q. And I see also that down at the bottom you have 'a combination of mixed widths may be ordered to secure quantity price'?

A. Yes.

Q. When you wrote those things, did you intend this to be a price list or not?

A. Not necessarily - because the condition of single-face roll is that I never have intended any such lists to be anything, really.

Q. Well you never intended such lists to be --

A. Well certainly I didn't expect these to be price lists."

(Evidence, pp.4722-23)

(b) Standard Lists for Cannery Cartons

These lists are discussed in the Statement of Evidence as follows:

"262. Copies of Cannery Lists were found on the premises of several manufacturers. Until the price change which took place in the fall of 1953, they were usually a compilation of total manual costs without the mark-up. In the fall of 1953 the lists appeared in the form of price lists under the name of KRAFT CONTAINERS, and these were manual totals plus the mark-up for Ontario-Quebec.

263. The lists covered regular style 65-pound containers, showing in the left-hand columns the number and description of the cans to be packed therein. Beside each item was a standard area figure followed by the standard dimensions and then the total manual costs (or the selling prices in late 1953) for plain and printed cartons. In addition the amount of the machine charge applicable to each class of order was shown and also the number of cartons of each specification which constituted one and two carloads. In connection with this last feature it is noted that the areas required to make up the carloads differed as between specifications, although they all were within a few hundred square feet of the traditional 160,000 square feet area.

264. The figures shown for costs can all be verified as being the totals secured by use of the manual applicable on the date of the list. The reason why special lists should be issued when the figures could be readily calculated through the manual appears upon examining the lists and the manual. The following notation appears at the top of the list for March 1, 1949:

'These sizes, based on can diameter and height, are considered to be correct standard sizes. They are often varied 1/16" to 1/8" over or under to meet individual customer preference. The costs however have been carefully checked

and slight changes in size do not effect [affect] costs listed below.'

(Serial 6562 CST)

This last statement means that the standard costs were to be applied rather than costs derived from use of actual dimensions. Contrary to the statement just quoted, differences of  $1/8$  inch in dimensions do affect the area, as may be readily verified by checking the area tables in the manual. For example, the first item on 6562 CST has dimensions of  $10 \frac{3}{4} \times 8 \frac{1}{16} \times 6 \frac{1}{2}$  inches and the area is 4,333 square feet. Had the dimensions all been  $1/8$  inch greater, i.e.  $10 \frac{7}{8} \times 8 \frac{3}{16} \times 6 \frac{5}{8}$  inches, the area would have been 4,444 square feet. (For area table concerned, see Exhibit 18, Serial A35516, for method of calculation see Serial A35505). In dollars and cents this would involve a noticeable difference in the price of an order for canners' cartons. So, too, would the  $3\frac{1}{2}$  per cent carload discount if offered by one seller and not another because of differences in determining exactly what constitutes a carload. In the first example on Serial 6562 CST, 37,000 cartons are considered a carload, but 36,000 would not qualify. Yet if the true dimensions of the carton were the higher dimensions referred to above, 36,000 cartons would be equivalent to 159,984 square feet, and 37,000 cartons at the standard dimensions would be 160,321 square feet. Obviously, there could occur many variations of final prices in the absence of the standard lists.

265. This general proposition was explored with Mr. Baird, Sales Accountant, HINDE & DAUCH, in the following passage:

'Q. . . . is it not true that two manufacturers - in view of the differences in their allowances [score allowances] - could very well arrive at different sizes per thousand square feet on these boxes which apparently were the same size?

A. I would say so.

Q. Thank you.

MR. SEDGWICK: I would like to ask you Mr. Baird whether or not the differences in area are considerable?

WITNESS: No that would be very minor.

MR. SEDGWICK: Trivial?

WITNESS: I would say so - yes.

Q. Well now on a large order, would not the differences be considerable?

A. On a very large order - yes - it isn't on the --

Q. No - I am not thinking in terms of cents - I am suggesting to you that with combined board costs - \$11 and \$12 and similar sums like that -- per thousand square feet - with any mark-ups figures on them - it could amount to actually quite a bit of money on an order?

A. Yes, it probably could. '

(Evidence, pp.485-6) "

(Statement of Evidence, Vol.I, pp.169-70)

Mr. Hayes in his evidence on canners' cartons indicated that he had prepared and distributed such lists to all firms in the East (Evidence, pp.4707-08). At another point he said that he would not send such lists to anybody outside of Ontario and Quebec (Evidence, pp.4697-98). Mr. Hayes's justification for the standard canners' lists was that they served as a guide for manufacturers and were a labour-saving device, refusing to concede to the lists the significance which was inferred in the Statement of Evidence, Para.264, quoted above (Evidence, pp.4702-03 and 4705-06). This is inconsistent with the following extract from a letter written by Mr. Hayes to Mr. Dunkin of Maritime on September 13, 1949, in which he speaks of "damage" done to Maritime by a competitor who uses non-standard sizes.

". . .

. . . He [Mr. Stairs, the President of Maritime] also spoke to me about some of the costs being used to establish canners' prices in Nova Scotia, and I told him I was not certain whether the particular account he had in mind was the one you and I discussed some weeks ago and found that one of your competitors had not been using the standard sizes as given on the canners list. My understanding is that this fall, after the canning season is over, they will revert to the standard list which, while not helping the damage done this year, will straighten things out for next.

. . ."

(Serial A30448 2MPH)

There is also evidence that the standard canners' lists were revised by gathering the opinions of the box manufacturers as to what standard sizes should be. Such material was obtained by



the circulation of the following letter :

"CANNERS CARTONS

In reference to Cannery Standard Size List dated March 1st, 1949, it has been understood that these sizes were often varied 1/16" to 1/8" over or under the listed size to meet individual customer's preference.

It is evident, however, that many of the standard sizes are too large, and all variations are under the listed size. We are therefore requesting that you fill in the column marked 'proposed size' with your opinion as to a revised size based on the carton size you are actually supplying.

NOTE : In addition to the sizes below we would like your recommendations on standard sizes for condensed and evaporated milk cartons.

. . . "

(Serial 16276 SPB)

Then followed a list of the current standard sizes and, opposite this, the "proposed" column referred to (Serial 16276 SPB).

Mr. Hayes, examined in connection with this circular, stated that the completed circulars returned by the various companies were the basis of a revision of the standard lists for canners' cartons :

"Q. Well now - if you would look at serial 13901 and hold the other one out for the moment, -- this is H and D so I suppose it must be a fill-in copy of that same thing -- were those figures referred to you by Hinde and Dauch in answer to your questionnaire?

A. Well quite a few companies responded to this.

Q. I see -- as a result of the response did you change the standard sizes?

A. Yes - I believe ultimately we did - I wouldn't know whether it was done the next day, but subsequently the sizes were reduced, because the predominant sizes on that questionnaire were smaller than the standards that were in effect at that time.

Q. What was the consequence of that ?

A. I think that in a few places the reduction was sufficient to lower the price, or at least the cost of the box -- I assume the customer passed on that saving in costing in a reduction of the price."

(Evidence, p.4704)

On September 7, 1950 Mr. Hayes again circularized the industry enclosing a sheet of proposed revised canners' sizes and costs and asking that any differences of opinion between the box manufacturer and the sheet should be reported immediately (Serial 11504 CBT). A further circularization of proposed canners' lists concerned with sizes of box was made on September 15, 1950 (Serial 11505 CBT). The sizes and costs on this list apparently became the final list.

The following list of serial numbers includes a specimen of each of the standard lists of costs on canners' cartons issued from March 1949 to October 1953 which are in evidence :

6562 CST	-	March 1, 1949
6640 CST	-	September 15, 1950
6673 CST	-	March 1, 1951
6701 CST	-	July 2, 1951

With respect to a later issue of canners' lists, the Statement of Evidence indicates that the pricing basis originated with Kraft Containers :

"272. In the fall of 1953 the canners' list was not issued in the form described above. Mr. Hayes testified that he had prepared net price lists of canners' cartons for KRAFT CONTAINERS and BATHURST, but that he had not distributed such price lists to the other paperboard shipping container manufacturers (Evidence pp.4495-6, 4707-10). He indicated that in the majority of instances the prices had been given to him by KRAFT CONTAINERS and that he had simply made copies of the lists on the duplicating equipment in his office. Copies of these price lists, however, were found in the files of certain of the competitors of KRAFT CONTAINERS (Serials A25160-1 2 MHP, from MARITIME; 37091-2 2GCT, from GAIR; 48651-2 2HPH, from HENDERSHOT; 97906-8 3CBT, from CANADIAN WIREBOUND; 100860-2, 2APT,

from ACME; A35060-2 2 SPP, from SHERBROOKE).  
There is no clear evidence, either documentary or oral,  
of how these lists came into the possession of the companies  
concerned, but there is evidence that they used them  
in pricing. . . . "

(Statement of Evidence, Vol.I, p.175)

An example of oral evidence indicating the use of  
standard lists for canners' cartons after the fall of 1953 is that  
of Mr. Lloyd, Sales Supervisor, Canadian Wirebound, quoted  
below. Serials 97906-08 3 CBT referred to in this excerpt  
bearing the name of Kraft Containers Limited, but no date, are from  
the premises of Canadian Wirebound. They are identical (with the  
minor exceptions noted hereafter) with Serials 43510-12 2 KCH  
found on the premises of Kraft Containers, bearing the name Kraft  
Containers Limited and an effective date of March 1, 1954. The  
only differences are that certain prices left blank in Serial 97906 are  
filled in by hand in Serial 43510 and certain handwritten figures  
appearing in the left-hand margin of Serial 43510 do not appear in  
Serial 97906. Serials 43513-14 2 KCH dated October 6, 1953,  
bear prices which are in some cases lower than those in Serials  
97906-08; otherwise they are very similar, but not identical, in  
content.

Mr. Lloyd's testimony is as follows :

" . . .

Q. In March 1954 you were still doing your old work as a  
member of Canadian Wirebound is that correct?

A. In March 1954 - yes sir.

Q. I am producing to you serial number 97906-7-8 3-CBT?

A. Yes.

Q. Now did you use this price list in pricing canners' cartons?

A. Yes sir, yes.

Q. How did this come into your possession ?

A. Mr. Diven gave it to me.

Q. Did he instruct you how to use this?

A. Yes.

Q. In pricing standard canners' cartons

A. Yes sir.

Q. I notice that that list was undated - the last one?

A. The last one?

Q. The last one I showed you was undated?

A. Of the canners' case? Oh I didn't look.

Q. I show you that document again and ask you if you can remember when it came into effect?

A. It looks to me as though it were the last canners' list that we had.

Q. Do you remember some of the figures on it on that basis?

A. I would say yes.

Q. Thank you. I now produce serial 43513-4 2 KCH and this one came from the files of the Kraft Company - do you recognize that as a copy of a list which you had in your possession?

A. It looks very much like the same list that we had.

Q. Did you make a change in the price of boxes for the cannin industry about October 1953?

A. I couldn't say, I don't know .

Q. You say this looks very much like --

A. Very much like the list that we had.

Q. You recall having lists that had Kraft Containers Limited name on them?

A. Yes.

Q. I see? - - -

A. Just one.

Q. Just one?

A. Yes that was all I can recall seeing - there may have been more, but I only recall seeing one.

Q. Well you recall the last one that I showed you?

A. Yes.

Q. Now what about this one?

A. Well I say it looks similar to a list that we had but whether it had Kraft Containers' name on it or not I am not sure - I remember seeing one list with Kraft Containers Limited name on it, but I can't recall any others.

Q. Do you have -- did you have copies of that last list made?

A. Not to my knowledge.

Q. Did you receive identical lists but without the Kraft name on it?

A. At one time - yes.

Q. But did you receive such lists at the same time as you received lists with the Kraft Containers name on?

A. I don't think so - I wouldn't swear to it but I don't think so.

. . ."

(Evidence, pp.310-12)

(c) Standard Lists for Brewery Cartons

On this subject the Statement of Evidence says :

"274. Copies of Brewery Lists were found on the premises of various manufacturers. As in the case of the canners' lists, they were initially lists of the manual costs without the mark-up, computed for specific sizes of containers, both plain and printed. The first such lists issued after the commencement of this investigation, those of late 1953 and of 1954, were price lists, in that they included not only the manual factors but also the mark-up for Ontario-Quebec, and they appear as lists of KRAFT CONTAINERS."

(Statement of Evidence, Vol. I, p.177)



Mr. Hayes's evidence on this matter was in part as follows

"Q. With respect to brewery boxes - did you ever prepare a price list of brewery boxes?

A. Yes - several.

Q. For whom?

A. I believe, without checking my records, I would say that they were supplied to Bathurst or Kraft Containers.

Q. And when was this.

A. Oh - quite a few of them.

Q. When -- could you give us some dates -- does this go right back to your early days with Container Statistics - and carry right through?

A. I believe that the first one was issued in approximately October of 1953 --

Q. Well now - prior to that time did you prepare price lists for brewery boxes for anybody?

A. No -- I supplied some prices -- costs of brewery boxes - similar to the canner's lists costs.

Q. I see -- well then I would like to show you serial A25158-A25159 2MHP and I would like to ask you if that is typical of the ones you made for Kraft Containers?

A. Well it is typical of one.

Q. One edition?

A. One edition - yes.

. . . [1]

Q. I am now showing you serial 11509 to 11514 CBT [ Summary Beer Carton Costs as at September 1, 1950] - is that a memorandum you prepared?

A. Yes sir.

---

[1] Serial A25158-59 2MHP bears the notation : "Effective October 6, 1953."

Q. And did you circularize that to your clients ?

A. I believe I made this and that it was circularized among some of my clients."

(Evidence, pp.4723-27)

The following copies of brewery lists include a specimen of each list issued in the period 1949-54, as indicated by the evidence :

Serials 6545-56 CST	-	January 1949
Serials 11509-14 CBT	-	September 1950
Serials 12245-50 CBT	-	April 1951
Serials A25158-59 2MHP	-	October 1953
Serials A32495-504 2WBF	-	March 1954
Serials 97884-95 3CBT	-	August 1954

Again as in the case of the standard lists for canners' cartons, Mr. Hayes defended the lists for brewers' cartons as labour-saving devices (Evidence, p.4726). The following pieces of evidence should be considered in appraising Mr. Hayes's position on this matter.

This note appears in the September 1950 list :

". . .

NOTE : Due to differences in score allowances between manufacturers and preferences in tight or loose fit, the cartons as supplied may vary slightly in size from those listed below.  
Such variations do not affect the costs as listed.

". . ."

(Serials 11509-14 CBT)

An unsigned memorandum on brewery cartons from Container Statistics dated May 1, 1952 is relevant to the issue :

"While nothing definite has been received by this office on a standard brewery carton, it is evident from the individual requests for sizes that the diameter of 2-5/8 is undoubtedly the correct one to use for costing purposes. Several have received requests to manufacture boxes which would correspond to a diameter of 2-19/32, and in

several cases requests have been made for boxes where the length would work out to one diameter and the width would work out to another. It will probably be necessary to satisfy the dimensions requested by the user, nevertheless for costing purposes it appears that 2-5/8 should be used. As far as depth is concerned, I understand that requests have been received for two different depths of containers - those printed for beer to be 9-1/16, and those printed for ale to be 9-3/16. These requests for so many different sizes have led to some confusion in costing, and we are enclosing a sheet showing the manual costings for plain boxes in both 65 lb. and 40 lb. stock, . . .

. . . "

(Serials A23189-91 3CPO)

Finally, the evidence of Mr. H. E. Oyler of Corrugated Paper Box is relevant to this question :

"Q. Well, now in your actual experience at Corrugated Paper Box - did you find that the [brewery] cartons which were being ordered complied precisely with one or other of the specifications shown on these lists?

A. Precisely - no - because what we might consider to be one size - somebody else might consider another --

Q. And what did that result from?

A. Manufacturing tolerances.

Q. By that do you mean score allowances?

A. That's correct.

Q. Do I understand from that, that the area of any specific box might vary from the area which is shown in these price lists?

A. No -- based on these tables --

Q. But based upon what - your actual sheet area?

A. These -- as I understand it - these areas here are based upon these actual sizes --

Q. Yes --

A. As far as we are concerned at Leaside the area - one eighth might or might not make a difference - somebody might consider box  $10\frac{1}{2}$  and we might consider it  $10\frac{3}{8}$  according to our tolerances.

Q. Was it your understanding that the purpose of these lists was to standardize on areas which could be used for the purpose of calculating prices through the manual?

A. Yes -- that is my understanding."

(Evidence, pp.843-44)

The foregoing evidence shows that the significance of the standard lists for brewers' cartons lay in their standardization of manufacturing tolerances and in their consequent elimination of price discrepancies which might otherwise have arisen. The true meaning of the sentence "Such variations do not affect the costs as listed" (Serials 11509-14 CBT, quoted in part above), it is apparent from Serials A23189-91 3CPO (quoted in part above), is that such variations should not be allowed to affect the costs as listed. It is clear that the purpose of the lists was to provide a uniform basis for the application of "cost" factors drawn from the Manual.

(d) Use of the Standard Lists for Pricing

There is abundant evidence that the standard lists for canners' cartons, brewery cartons, and single-faced corrugated rolls were used for actual pricing by the firms associated with Container Statistics.

Mr. M. D. Taylor, Office Manager of Maritime, for example, testified as follows with respect to the standard list of manual costs for canners' cartons :

"Q. . . . I am showing you now a document serial 23130 MPH -- this is headed 'Manual costs on standard canner's cartons' and it is dated July 2nd 1951 -- do you make cartons for the canning industry?

A. Yes.

Q. And in calculating prices of such cartons - do you use a list of manual costs?

A. Similar to this?

Q. Yes ?

A. No.

Q. Have you at any time ?

A. Yes.

Q. You did?

A. Yes.

Q. And when did you stop using that?

A. I would say it must have been two or three years ago.  
[It was now May 1956] .

Q. Well now - did you use this list in front of you in pricing cartons to the canning industry?

A. Yes.

Q. And did you in working out prices, use the same mark-up as though you were using the Containers Statistics manual ?

A. I don't recall exactly -- I would say yes - we did.

Q. Well do you recall that you didn't use a mark-up that was different from the one you were using on the manual?

A. No.

MR. GASCOIGNE - When you say 'I would say we did - yes' -- use the same mark-up and the same other things -- is that the general recollection that you have -- that you systematically used that mark-up for everything except Olands and Keith and Schwartz orders?

A. Yes. "

(Evidence, pp.4210-11)

Mr. V. Courchesne, Cost and Pricing Clerk of Sherbrooke testified that he used the single-faced corrugated roll lists for pricing purposes after the date in 1953 when they were issued under the heading of Kraft Containers.

"Q. Now I am producing to you serial 22330 - 22331 SPP [copy of the standard price list for single-faced corrugated rolls bearing the name 'Kraft Containers Limited' and the date April 1, 1953] which is a document which was obtained from the premises of Sherbrooke Paper Products and I would like you to take a look at this document and tell us if you have seen copy of this before or if you have seen the original of this - from which this copy was made?



A. Yes I have.

Q. Is this a price list ?

A. Yes it would be.

Q. And you used it in ---

A. 1953.

Q. In pricing these particular products which are single faced rolls ?

A. Yes - we have.

Q. Can you recall who you received that list from ?

A. No I believe this was in our costing book at the time that I started to work there.

Q. Yes -- that's right - this document was from the price book [Serial 22172-22410 SPP] I showed you originally --

A. Oh.

Q. Now I am producing to you serial No. 43521 - 43522 - 2 KCH and this is a copy of a document which was obtained from the Kraft Containers in Hamilton - and I would like you to look at it and see if you can recall having seen an identical copy at Sherbrooke Paper Products - you will note that the date in the lower right hand corner is October 1953 --

A. Yes - that's right.

Q. Do you recall seeing such a list ?

A. Yes - that's correct.

Q. And did you use it for pricing single faced rolls ?

A. I imagine we did -- I can't say - between this one or the previous one -- I don't know --

Q. Well if you will look at the previous one, serial 22330 - and compare that one with serial 43521 you will notice that the latter list shows increased prices --

A. That's right.

Q. In other words -- if you take the first item in the top left corner there - it is \$4.60 and that is on 22330 - now look at the document serial 43521 you will see that the price is \$5.00 so obviously there was an increase in price ?

A. I seem to remember that this new list with higher prices was not brought into use right away --- we kept using the old one for a long period of time before we actually increased our prices on the single faced rolls. "

(Evidence, pp.1492-94)

Mr. Oyler of Corrugated Paper Box stated that his company used standard lists for brewery cartons, but always double-checked the calculations through the manual :

"Q. . . . did you from time to time throughout your experience receive from Mr. Whealy lists containing the selling prices for beer cartons ?

A. Yes - I would say that is correct.

Q. And did you in pricing beer cartons regularly use these lists which were given to you in that manner ?

A. No - I always double-checked them and estimated them myself.

Q. And have you found from your check that the price didn't work out -- if so, what did you do then ?

A. I don't remember any occasions when they didn't.

Q. I see -- so that in fact you did use them ?

A. Well I used them but not --

Q. Not blindly ?

A. No -- just not just picking it up like this and saying that is it.

Q. Well -- after you had made one check I presume you would wouldn't you ?

A. No -- as a matter of fact I was most careful with all the boxes - to make sure the manual was being followed .

Q. Well now -- supposing as a result of your manufacturing tolerances you came up with an area different from the area shown on that list for some specific type of box - what did you do then ?

A. We would go on with it .

Q. So that actually you would develop a different price through the manual in that case -- wouldn't you ?

A. Yes but I can't remember too many of them where we differed that much. "

(Evidence , pp.846-47)

Mr. H. C. Wonnacott, Secretary of Hygrade, testified that the company had used the standard lists for pricing single-faced corrugated rolls :

"Q. What has been the basis in the years since Container Statistics was established for your pricing of single faced rolls ?

A. We have received single faced roll lists from Container Statistics.

Q. And have they been adopted into your price structure ?

A. I think so.

Q. Now I am showing you serial A25311 to A25315 DCT -- this is a document that came from Dominion Corrugated Company again , and it is dated September 1st 1950 -- it is headed 'Notes on Revised Conversion' and it says :

'Enclosed conversion tables single faced Nos.2-67 and 2-68'

and they are serials A25312 and A25313 --

' and single faced rolls selling price list '

which is A25314 and A25315 -- now are those the kind of lists that you received from Container Statistics ?

A. This is the general form of them.

. . .

Q. Now were there any exceptions to the practice of selling in accordance with the single faced roll list that Mr. Hayes sent to you ?

A. I don't recall that there were any exceptions.

Q. There were no special classes of customers such as jobbers who got special prices - or anything of that character ?

A. No -- I don't think so -- so far as I can recall.

Q. And did this system of pricing the single faced rolls continue throughout the life of Container Statistics until we came to your office - at least ?

A. I think so -- it was an extremely small portion of our business, as you may suppose ."

(Evidence, pp.5305-08)

Mr. Wonnacott also testified to his company's use of the standard lists on canners' cartons. This is shown in the following excerpt from evidence :

"Q. Yes --- now I would like to show you three pages -- one is serial 18798 and that is HCL which means it came from your company -- it is headed 'Manual Costs on Standard Canner's cartons - July 2nd 1951' and I am handing you also serials 43514 - and 43513 2-KCH which means they came from the files of Kraft Containers Limited --- now is serial 18798 an example of the canner's lists that you referred to a few moments ago ?

A. Yes.

A. Yes sir.

Q. And what use do you make of that or what use did you make, as of July 2nd 1951, of that list ?

A. The only reason - or the only use that I can think of at the moment - to which they were put, was to check the dimensions and we may have checked on prices to see whether we has [had] the same prices as were listed here.

Q. Now in connection with the check on dimensions - take for example the very first item -- where you have a can size 2.11 3.04 fluid ounce capacity of 8, 24 in a package, would your length, width and depth necessarily coincide with the figures that are shown there ?

A. No sir.

Q. And as a matter of practice did you in fact use the area figure which is shown there if you were making a box for that particular purpose ?

A. If we were -- any time we made boxes for customers, we used the dimensions that they gave us.

Q. And in connection with the area for figuring through the manual - did you use this figure 4333 ?

A. It is altogether likely because I believe this is the area obtained for a box of the dimensions given.

Q. Well -- supposing your dimension varied a little bit ?

A. It made no difference from a pricing standpoint.

Q. Well do you mean you still would use 4333 ?

A. That's right sir.

Q. And is that the purpose to which you put this standard canner's list from time to time - as you received it ?

A. I think that is right.

Q. As a matter of fact - do the score allowances which you used affect the actual area ?

A. There is no particular connection between the actual dimensions of a carton and the dimensions which are used for pricing on anything -- whether it is canner's or general - general lines of boxes.

Q. Do you mean by that that regardless of the sheet area, you used the carton area tables in the manual ?

A. That's right. "

(Evidence, pp.5297-99)



## 12. Adherence to Trade Customs of the Paperboard Industry

In Chapter II of this report it was noted that the Board Section of the Canadian Pulp and Paper Association was one of the avenues of contact for the manufacturers of shipping containers and containerboard during the period of price control. That chapter noted the Board Section's work in revising a booklet called "Trade Customs of the Paperboard Industry in Canada". Messrs. Palm and Cockerill representing Brompton and Bathurst respectively were members of a committee revising this booklet in 1946, as evidenced by a letter from Mr. W. H. Palm to Mr. G. T. Cockerill on July 13 (Serials A26001-02 LCO).

The booklet "TRADE CUSTOMS of the PAPERBOARD INDUSTRY IN CANADA, AUGUST Nineteen Forty-six, Reprinted January, 1950" is in evidence (Serials 6430-44). Section "A" (Serials 6432-41), dealing with boxboard grades, is not germane to this inquiry. Section "B" (Serials 6442-43) is entitled "CONTAINER BOARD GRADES FOR THE MANUFACTURE OF SHIPPING CASES". Although it is not proposed to reproduce these in full, considerable quotation is necessary to illustrate adequately the degree to which conditions of sale and delivery, the basis of claims, and the grades and colours of board manufactured and supplied were standardized. Standard specifications were spelled out in "VIII. STANDARD TESTS".

### "I. CONDITIONS OF SALE :

- (a) Prices are at all times subject to change without notice. All Sales Taxes and Government levies are for customers' accounts.
- (b) On all sales where credit is extended, terms are net cash 30 days.
- (c) No orders are accepted at a definite price when delivery is required more than 30 days after date of acceptance of order. Orders for delivery more than 30 days after date of acceptance are at prices prevailing at date of shipment.
- (d) The manufacturer at his option will delay further shipment or be relieved of all obligations to supply the buyer with board should payment or payments for previous shipment or shipments be overdue.

. . .

### III. DELIVERY :

- (a) Delivery of all orders is made f.o.b. cars at seller's mill.

- (b) Delivery is made, either carload freight allowed or, if freight collect, carload freight is allowed off face of invoice.
- (c) Delivery promises are made subject to the conditions outlined in II(c) above.

#### IV. CLAIMS :

. . .

- (d) In the event of any disagreement as to the basis weight, caliper or any other property of board supplied, conditioning, sampling and testing will be conducted in accordance with the recognized procedures laid down by the Technical Section of the Industry and known as 'The Official Standard Testing Methods of the Technical Section C. P. P. A.' issued by the Committee on Physical and Chemical Standards. In any dispute that may arise in respect to board quality, the foregoing are the only testing methods which will be recognized.

#### V. TOLERANCES :

- (a) The manufacturer does not undertake to make the exact caliper or basis weight ordered but reserves the right to supply a variation of five percent either way in basis weight or caliper and, in no case, less than one point of caliper in thickness either way.
- (b) Container Boards are supplied with definite standard sheet properties but the board manufacturer does not guarantee the characteristics of a processed container.
- (c) The manufacturer does not undertake to match exactly any shade or colour but will supply a commercial match to the accepted standard colours.

## VI. STANDARD GRADES :

The following standard container board grades are made in minimum carload quantities in standard calipers and standard colours :-

<u>Standard Grades</u>	<u>Standard Calipers</u>	
Fourdrinier Kraft Liner		
Water Finish One Side . .	.016	.025
Fourdrinier Kraft Cor-		
rugating Dry Finish . . .	.009	
Jute Liner . . . . .	.016	.025
Chip or Straw Corru-		
gating . . . . .	.009	
Paster Chip. . . . .	As required.	

## VII. STANDARD COLOURS :

A commercial match is supplied to the following standard colours :

Natural Kraft  
Natural Jute (Grey)  
Brown

## VIII. STANDARD TESTS :

The standard tests as laid down in the Official Testing Methods of the Technical Section C. P. P. A. are to be employed at all times. Complete copies of this data can be made available to board users by manufacturers of container board, upon request. "

(Serials 6442-43)

Tables entitled "GAUGE LIST NO. 8 JUTE LINER BOARD" and "GAUGE LIST NO. 9 KRAFT LINER BOARD" provided test minimums and weight per 1,000 square feet for each of two calipers of jute liner board and eight specified kraft liner boards. "GAUGE LIST NO. 10" specified the weight per 1,000 square feet for corrugating boards of kraft, straw and chip grades (Serial 6443).

Clearly, the Trade Customs, if adhered to by the container manufacturers, would, assuming that prices of containerboard were uniform, achieve such a uniformity of conditions of sale, delivery, claims, tolerance, and such a standardization of quality in the product that price competition between Canadian containerboard manufacturers

whether through the granting of more lenient conditions of sale or delivery, better quality of board for a given price, or competition through the provision of calipers or colours more closely related to customers' needs, would be effectively eliminated. Because imports of containerboard have always been of very minor importance, this standardization of board would have the effect of similarly standardizing the quality of shipping containers and of eliminating competition in terms of more favourable conditions of sale and delivery and better containers for given prices.

The important question is, therefore, to what extent the Trade Customs were actually observed, or obversely, to what extent departures were made from them.

It is true that the following appears in Serial 6431 as an "Introductory Note" to the Trade Customs :

"This publication is a compilation of the customs and practices that have been found by individual mills to be practical and valuable in handling their sales of paperboard. It is as complete as it has been possible to make it.

If any individual manufacturer chooses to adopt these Trade Customs for the conduct of his business, it will constitute a ready method to ensure that both mill and customer have the same understanding of a quotation or the terms of a sale. If any individual manufacturer chooses to adopt other Trade Customs it would be a convenience if he would report the changes to the Association so that they may be incorporated in future compilations prepared for the assistance of manufacturers and consumers of paperboard."

(Serial 6431)

On the other hand, the testimony of Mr. G. T. Cockerill, Administrative Vice-President of Bathurst, on the Trade Customs indicates the following :

- (1) that Bathurst had never done anything in connection with containerboard grades which would conflict with the Trade Customs;
- (2) that in the revision of Trade Customs which took place in 1946 nothing was put in with which his company did not agree;
- (3) that all the Trade Customs in that book were exactly the same for everybody;



(4) that although Mr. Cockerill insisted that the Trade Customs was a compilation of actual industry practices at the time that the book was revised, this was manifestly not so, because at the time the book was revised the production of the industry was under strict control as to the weight basis, caliper, and price, such being enforced by the Wartime Prices and Trade Board.

The following extracts from Mr. Cockerill's evidence substantiate the foregoing commentary :

"Q. What about this publication Trade Customs -- were the contents of Trade Customs, which came out at about that time or a little later on, the subject of negotiation and agreement among the mills and the manufacturers of containerboard grades?

A. No. I don't know whether you know the position that Mr. Palm held in connection with this particular job. Mr. Palm was the Chairman of a committee of Board Section who was requested to bring the paper 'Trade Customs Booklet' up to date. It had been in effect for a long time. There was a committee formed which included representatives -- not the whole lot by any means -- it was a committee of about four or five people and Palm was the Chairman of it and in the end a book was put together and it was published, if this is 1946, I imagine about 1947 -- it was the one that is current. It is not a -- it is a collection of trade customs -- it is not mandatory to anyone at all and I think it has got on the front there that it is just a collection of customs generally prevailing but that anybody who wants to do it in any other way can do it, but it would be a good idea to have this general information in the booklet. I think it explains itself.

Q. Has Bathurst ever done anything in connection with containerboard outside of Trade Customs ?

A. Done anything with containerboard ?

Q. Done anything in connection with containerboard grades that would conflict with Trade Customs ?

A. I would say generally no.

Q. And before anything was added --

A. But we don't look upon this Trade Customs as controlling anything we do.

Q. And in connection with the revision of Trade Customs that took place in 1946, was anything put in there which your company didn't want to go in there ?



A. I would think not -- I don't think so, no.

Q. Was there anything proposed to go in there which you objected to ?

A. That I objected to -- I was on that committee.

Q. Yes, was everything that went in there the result of negotiation and compromise ?

A. No. It was just a pure statement of custom. There was no compromise -- I can't think of any -- no. It was an endeavour to get up to date a book which is widely read within the paper trade. The box-makers and everybody have got copies and it was thought that they should be really brought up to date. There was no question of putting out something in compromise. It was a record of trade customs.

Q. As a matter of fact then, are all the trade customs which are dealt with in that book exactly the same for everybody ?

A. The ones that are in that book presumably are . . . .

. . .

Q. Now I would like to ask you this did some of these matters that were set out in Trade Customs affect the quality and the price -- did they have to do with the quality and the price of containerboard grades ?

A. No, not at all. I would think they had nothing to do with the price or quality of containerboard grades at all -- certainly it hadn't any control over price.

Q. Now under the regulations as to prices which were operating in 1946 and under which you were operating, could you have made any change in your quality and price for these products without approval from the Wartime Prices and Trade Board ?

A. I rather think that the Administrator's Order on paperboard stipulated the grades of containerboard that could be made during the period of the administration. I think as an example it limited us -- we were not to make coloured boards. I think it stipulated certain calipers and I believe prior to that we were making .16 liner, .20, .025, liner, and 74, and I am rather inclined to think that paperboard Administrator's Order eliminated the .20.

Q. Yes. Of course, you were under the general price ceiling regulations too ?

A. We were only allowed to charge what the Administrator told us was the maximum.

. . .

Q. The only point to which I am directing your attention is this -- when you were in the position of having a ceiling price on certain grades, did you consider that that implied also that you must maintain the quality of the grades and not change it into some other grade ?

A. Oh well sure . . . "

(Evidence, pp. 5837-44)

Mr. Cockerill's attention was directed to a memorandum from R. C. Godden of Brompton to Brompton's Toronto office dated December 14, 1946 , which read in part as follows :

"I have your letter of December 10th re the new book of Trade Customs and would like once again to caution you that officially we are not allowed to use this new book until the price controls are eliminated.

. . . "

(Serial A26007 LCO)

Mr. Cockerill's testimony in connection with this memorandum is as follows :

"Q. ...Do you agree with that statement -- was that a true statement at that time ?

A. I don't know at all -- I really frankly don't know what the hell he is getting at.

Q. I suggest to you that what he is getting at was under the Wartime Prices and Trade Board regulations the ceiling regulation you were stuck with your prices, terms and conditions of sale which applied in the basic period -- does that agree with your recollection ?

A. Sure -- you mean that the prices that we had that were established by the administration -- we were stuck with them ?

Q. Yes. The prices, the terms and conditions of sale.

A. Yes. But the prices is one thing --

Q. Well it is all -- prices, terms and conditions of sale -- would you agree with that ?

A. Yes. We were stuck with whatever the paperboard administrator said we had to do -- yes.

. . .

Q. And as a member of that committee would you have included in the compilation any exceptions to the rules, if there had been any ?

A. To what rules -- exceptions to what rules ?

Q. Did I say exceptions to the rules ? What I meant was exception to the rule - if there had been an exception to the general rule with respect to any one of these trade customs - would you have included it in the booklet ?

A. The matter never arose so I don't know. It never arose.

Q. It never arose -- there never were any exceptions to it ?

A. Not that I can remember -- you mean that people took exceptions to this ?

Q. No, look Mr. Cockerill, I am afraid you are forgetting what you were pointing out to us on Trade Customs -- you said it was a compilation of actual trade customs in effect on the part of individual people subscribing to the Board Section, of C. P. P. A. Now I am asking you this, if anyone of those people had written in and told you that there was a trade custom --

A. That was different ?

Q. That was different from what someone else wrote to you and told you -- would you have put them both in ?

A. I would think so, yes.

Q. Then I take it that the fact that there are no alternatives in this booklet indicates that they were the same for everybody ?

A. Well it would indicate that no one had written in.

Q. Yes.

A. But mind you, Trade Customs has nothing to do with price."

Mr. R. C. Godden gave the following evidence about the Trade Customs :

"Q. Now in connection with the paperboard trade customs of C. P. P. A. have you participated in discussions with your competitors leading to the adoption of those trade customs ?

A. Yes.

Q. Has that been usual throughout your experience ?

A. Yes.

Q. And do you consider yourself bound by those trade customs in C. P. P. A. ?

A. Speaking generally yes -- they have recently become obsolete due to the regulations imposed upon us by the Board of Transport Commissioners -- well, not upon us but upon the box manufacturers the boxmakers. "

(Evidence, p. 5976)

13. Exchange of Statistics on Shipments of Shipping Containers

The description of the arrangements under which Container Statistics operated which was given earlier in this report (See Chapter III, section 2), contains the provisions of the agreements relating to the collection of statistics. The nature of the statistical information collected by Mr. Hayes and its dissemination are described as follows in the Statement of Evidence :

". . .

21. The written agreements which Mr. Hayes made with many of his clients included a provision for the collection and dissemination of statistics of shipments of shipping containers. Once the arrangements got under way this statistical service became a monthly report entitled 'Company Shipment Summary and Basic Price Trend', a parallel report which accumulated the same information for the calendar year to date, and various year-end summaries .

22. The statistical statements show actual dollar shipments

of each of the companies who used the manual system of pricing, except for the two BATHURST subsidiaries (KRAFT CONTAINERS and SHIPPING CONTAINERS), HYGRADE and CANADIAN BOXES. The figures are divided into four districts : Maritime, Quebec, Ontario and Western. They do not, however, represent shipments to the geographical areas, but shipments by companies located in these areas, as can be seen from the returns of information . The Western District is, of course, exclusive of British Columbia, since CANADIAN BOXES have never been included. . . .

. . . "

(Statement of Evidence, Vol.IV, pp.710-11)

The statistics collected by Mr. Hayes did not include figures for Dominion Corrugated or for Sherbrooke. (The latter began production in 1952).

The statistical exchange in practice was not as comprehensive or as frequent as had been provided for under the Container statistics agreements.

The following excerpt from the testimony of Mr. F. C. Hayes, indicates in what respects the statistics actually collected differed from those of the agreements :

"Q. This next item in the contract is clause 4 - relating to statistics : 'For the purpose of assisting the company in securing and maintaining its statistical information, the manufacturer' -- that is your client -- 'and the company' -- that is yourself -- 'the manufacturer agrees to supply the following information immediately after the effective date of this agreement : the dollar and cent value of orders booked and not delivered, the total square footage of orders booked and not delivered, the dollar and cent value of the orders invoiced during the preceding month, the square footage of orders invoiced during the preceding month, and after the expiry of the first month after the effective date of this agreement, and on the fifteenth and end of each month thereafter, the manufacturer agrees to supply the company the following information : ' -- and that is the current figures for those up above. Now, again to cut a long story short, I have noted that these figures were actually never supplied on a bi-monthly basis, or at least it has not been even monthly -- is that correct ?



A. Yes -- I believe this calls for it monthly - doesn't it ?

Q. Well it says twice a month at the end.

A. Yes it does - but it was only monthly.

Q. And were these orders booked and not delivered collected ?

A. No - one and two - the first sections - were never collected".

(Evidence, pp.4505-06)

As indicated in the excerpts from the Statement of Evidence quoted above certain firms did not participate in the statistical interchange. Mr. Hayes gave evidence in regard to this situation and also in regard to the fact that the system of exchanging statistics was interrupted. After referring to the fact that all statistics provided under the agreements had not been collected, Mr. Hayes testified :

"Q. The other two, I take it, have been regularly collected ?

A. Three and four - yes - up until some time ago.

Q. And they have been terminated now ?

A. Yes.

Q. Right across the country ?

A. No -- I still give the Maritimes their figures.

Q. Just the two companies down there ?

A. Just the two companies.

Q. And you give each of them the figures of the two ?

A. I give them the total and each their own figures.

Q. Yes -- and in all of the rest of the country it has been stopped ?

A. Yes. It wasn't stopped - it was unsatisfactory.

Q. How did it happen to be stopped ?

A. Well I think it was, again, a difference of opinion. Bathurst never did -- were never in the sales report, and after they took over Wirebound it took so much from the total that some of them thought the figures were not of very much value any more, so they decided not to.

Q. They didn't think that by losing these statistics, the whole arrangement was now not worth having ?

A. Well there was quite a few of them that resented very much the loss of these statistics and they have not as yet ceased to get them re-started.

Q. Do you mean are still trying to ?

A. Yes.

Q. Do some of them report to you still ?

A. I have some reports - yes.

Q. And do you give them out when you are asking for them ?

A. No sir - no.

Q. Who are the ones who still give them to you ?

A. Well - I guess at the present moment I have most of them on record with the exception of Hinde and Dauch.

Q. Hinde and Dauch -- since December 1956 ?

A. Well it was stopped on that date, so --

Q. Prior to that they were all still reporting were they ?

A. I think so.

Q. And when did you stop disseminating the report ?

A. When they stopped coming in - I don't know the date of the last one.

Q. Again I am afraid that I am not following you -- I thought you said they were still coming in ?

A. Well -- oh, they stopped for a long time -- I got no sales for 1955 at all, if my memory serves me right, -- I have recently received some sales for 1956.

Q. Do you mean that it was resumed by everybody but Hinde and Dauch ?

A. Well I believe sales were sent in for six or eight months - all in one lot.

Q. And then month to month after that ?

A. No - no -- when I got Hinde and Dauch sales I merely put them in the file -- so I am holding them.

Q. And did you write and tell everybody what had happened ?

A. I will let them know yes -- I still think we will get them going again.

Q. You are trying to get them going again ?

A. Yes sir -- they are an advantage.

Q. When did they cease again ?

A. Well I couldn't tell you without looking it up.

Q. Did you tell me it was when Canadian Wierebound [ sic ] merged with Bathurst ?

A. Yes - I think they finished up that year, if I am not mistaken.

Q. That was 1954 ?

A. Yes.

Q. Did you finish up the year 1954 ?

A. I don't think so - but I am not certain. I would have to look it up."

(Evidence, pp.4507-10)

Mr. Hayes gave the following testimony about the means

he used to arrive at industry figures in the absence of statistics for certain manufacturers :

"Q. Now we were pointing out a few minutes ago that the Bathurst subsidiaries and Canadian Boxes and Hygrade did not ever subscribe to this statistical system -- just in terms of Ontario-Quebec region, have you any idea of what the position of the Bathurst subsidiaries, plus Hygrade, was in the market ?

A. During that period when we made the reports ?

Q. Yes ?

A. I guessed it every year.

Q. What did you guess it at -- what figure did you have in mind ?

A. Well you have the copy - you have copies --

Q. What do you mean - you guessed it and put it in your statement ?

A. Yes -- the year-end report - you have copies.

Q. Yes -- I remember them Mr. Hayes -- that is not the monthly ones and I had forgotten for the moment -- so you estimated that on the basis of once a year ?

A. Yes.

Q. Did you ever get the figures from these companies -- or any of them -- informally ?

A. No. But they were close.

Q. Did you ever supply to these companies the figures of the other ones ?

A. No. "

(Evidence, pp.4511-12)

The statistical interchange was apparently deemed by certain firms to be an important part of the Container Statistics system. This is shown in the following excerpt from a letter written

by Mr. F. C. Hayes to Mr. D. Hindle of Martin Paper, on June 7, 1948 :

" . . .

The report as issued follows very closely the one being issued in the United States and which covers practically every carton manufacturer there. Before this report was started in the States they were in continual hot water which was based on inaccurate information or rumours in reference to their position in respect to there [ sic ] competitors or within their district. The publishing of the actual facts has completely eliminated this trouble.

I have had several discussions with the larger manufacturers here and they are of one solid opinion, and that is, that the information as now being sent out is the only one that will do the job. They want to know their position in respect to their district and also in respect of the total Canadian sales and I am quite certain that our costing system will not work without the statistical information.

. . ."

(Serial 8470 MPP)

Mr. F. C. Hayes testified as follows with respect to the opinion he expressed in the foregoing excerpt from Serial 8470 MPP :

"Q. Well now Mr. Hayes - do you hold that opinion today ?

A. Well not as strongly as this letter would state - but I believe that the publication of sales figures that are accurate and timely -- I don't beleieve [ sic ] that they should be published until at least they are history to some extent - thirty days or so - but I can't for the life of me see where information as to how much your sales or your competitors' sales are, is any different than information as to how many shares were sold on the stock exchange yesterday in General Motors against Ford, and it doesn't -- I think it creates keener competition by knowing that.

Q. What was the thinking behind your statement :  
'I am certain that our cost system would not work without the statistical information ' ?



A. Well again I think that is to some extent a sales statement - probably made with my tongue in the cheek -- I think that the cost system does work without it and I think that the last two years has probably proven that to be correct.

Q. Well what is the point about that -- what is the relationship between the two?

A. Well I think the relationship is purely hypothetical -- I am quite frankly interested because of my fee - in seeing my clients operate at a profit because I don't think I am going to get my fee from them if they don't operate at a profit - and I wouldn't want them to plunge themselves into a disastrous period of loss based on misinformation, which could happen.

Q. Well you mean that if somebody was losing his position in the market that he would lower his prices ?

A. I don't know whether he would or not -- that is entirely up to him. He makes that decision entirely. All I do is furnish him the necessary factual information so that he can make up his own mind as to what he wants to do - but I want that information to be right.

Q. You are speaking now of information respecting his sales and the total sales ?

A. His position in the industry.

Q. And the total sales - not the individual sales of all companies ?

A. Individual sales of all companies.

Q. Oh I see -

A. Individual sales of all companies.

Q. But this costing system -- what has that got to do with the statistical information ?

A. Well every client of ours has a perfect right to request me to make out a new conversion table - ten per cent - 20 per cent -- whatever we [sic] wants to allow over what he has been using. Now - if I get eight or ten clients in that position, I don't think they are going to sustain a loss and continue using a service of that nature.

Q. Well do you mean by that that the cost system will only continue provided it results in a substantial uniformity in prices ?

A. I have no idea -- if you are asking me to take a crystal ball there - I couldn't.

Q. Well you are the one who is taking the crystal ball you see -- you say it won't work without the statistical information and I just want to know on what basis of reasoning you came to that conclusion ?

A. Well I wouldn't want to place myself in the position so that I was supplying a costly service to ten or fifteen companies, all losing money. When companies lose money they look around to see where they can save and cut costs and I felt that I might be one of them."

(Evidence, pp.4664-67)

## CHAPTER V

### PRICE INCREASES - POST-WAR PERIOD

#### 1. From the End of Price Control to the Establishment of Container Statistics' "Costing" System

Price control over shipping containers was suspended in April, 1947. Simultaneously the Administrator authorized a price increase for containerboard, which remained under price control till June 6th of the same year. Shipping container prices did not rise at this time, however, with the exception of those applying in the Maritime Provinces. Wilson and Maritime both increased their prices by a flat 7 per cent (Serials A30450-51 2MPH; 21916 WBF). In calculating their prices Wilson and Maritime used Administrator's Manual "B" including the standard 10 per cent mark-up provided in it and to this added another 7 per cent (Serials A30437-39 2MPH; 21863-70 WBF). In the Ontario-Quebec and Manitoba-Saskatchewan pricing zones the increased cost of containerboard was absorbed by the shipping container manufacturers. Insufficient evidence on pricing behaviour in Alberta and British Columbia makes it impossible to state what happened in these zones on this occasion.

An increase in the price of shipping containers occurred in October, 1947. The first increase in the price of containerboard in the post price control period was a 10 per cent increase on October 1, 1947 (Serial 15131 BAM). Increases in the prices of shipping containers occurred in the pricing zones of Ontario and Quebec, Manitoba and Saskatchewan, but no change occurred in British Columbia, Alberta, or the Maritime Provinces.

The evidence on events leading up to this price increase is worthy of some attention.

On September 23, 1947 Mr. D.A. Hindle of Martin Paper sent to his President, Mr. John Martin, the following telegram from Montreal:

"ATTENTION JOHN MARTIN GODDEN AT RED ROCK  
EXPECTED HERE THURSDAY OR FRIDAY SUGGEST YOU  
PHONE HIM STOP CONTAINER MANUFACTURERS HAVING  
MEETING TORONTO NEXT TUESDAY STOP EXPECT TO  
LEAVE HERE THIS WEEKEND

DAN A HINDLE"

(Serial 8428 MPP)

About the same time Mr. Hayes wrote a handwritten note to Mr. I. Good of Superior, which was undated and written on the letterhead of the Wartime Prices and Trade Board, as follows:

"Dear Ira.

The meeting in Toronto Tuesday Sept 30 (as per Winchells call) will be at Royal York in a suite registered in my name. 10.30"

(Serial 9909 SBW)

Mr. Hayes testified that this was written in 1947 and, although on the letterhead of the W.P.T.B., had nothing to do with the business of that organization (Evidence, p. 4467).

Mr. Martin, on September 24, replied to Mr. Hindle's telegram (Serial 8429 MPP). On the morning of September 26, 1947 Mr. Hindle telephoned Mr. Martin, according to Mr. Martin's letter of that date to Mr. G. Brown of Gair:

". . .

I understand from a phone call from Dan this morning, who is now in Montreal, that he expects to be in Toronto Tuesday and will no doubt, see you and discuss many items of interest to our industry. I, for one, feel that Box prices should be increased as several materials such as ink, stitch wire, and so forth, have advanced and then we have also absorbed the last paper increase without a box advance.

". . ."

(Serial 2897 GCT; Signature  
Identified Evidence, p. 2636)

On September 30, 1947 Mr. Hindle again wired Martin Paper as follows:

"MEETING DECIDED TO INCREASE BUT JUST WHAT PERCENTAGE TO BE DETERMINED LATER STOP FURTHER DISCUSSIONS TO BE HELD IN MONTREAL WHERE I AM NOW GOING RECEIVED YOUR LETTERS AT TORONTO PHONE YOU FROM MONTREAL

D A HINDLE"

(Serial 8430 MPP)

This message was sent after 3 p.m. and received at 4.05 p.m. As indicated above, the meeting was called for 10.30 a.m.

A number of witnesses were examined with respect to the increase in the prices of corrugated containers in the fall of 1947. Mr. R.E. Diven of Canadian Wirebound denied attendance at the meeting of September, 1947 (Evidence, pp. 1181-83). Mr. M.H. McArthur of Hinde & Dauch did not recall the meeting and denied that in the period between the end of the war and the institution of Container Statistics prices were discussed or agreed upon by the container manufacturers as a group. He remembered nothing about the meeting or discussions that were referred to in the documents cited above (Evidence, pp. 1328-31). Mr. L.D. Richardson of Shipping Containers denied attendance at industry meetings in either Toronto or Montreal with respect to the price increase of October 1, 1947 (Evidence, p. 1757). Mr. J.A. Whealy of Corrugated Paper Box denied that he participated in meetings with his competitors prior to price increases or before those which might have occurred in the fall of 1947 (Evidence, pp. 4766-70). Mr. I. Good of Superior did not recall any meeting of container manufacturers in September 1947 and denied that he was ever in Montreal at a meeting (Evidence, pp. 5046-48). Mr. A.R. Oelbaum of Acme claimed he had never even heard of these meetings (Evidence, pp. 5186-88). Mr. E. Wilkins of Hygrade denied any knowledge of these meetings (Evidence, pp. 5496-98). Mr. H.S. Litteljohn of Kraft Containers, after reading the documentation, could not recall whether he had attended the meeting on September 30, 1947 in the Royal York Hotel, although he did admit that he had attended meetings at which there might have been discussion of the need for new cost manuals (Evidence, pp. 5561-67). Mr. A.M. Dunn of Canadian Wirebound could not recall having attended any meeting of the container manufacturers to discuss price on the first occasion when prices were increased after the end of price control. He denied that prices were ever discussed at meetings of the container manufacturers (Evidence, pp. 5730-33).

Mr. F.C. Hayes was examined with regard to these documents. Much of his testimony was inconclusive, largely because he could not recall accurately who had been present. He denied that there was any agreement at the meeting to increase prices, although an increase in the price of containers did occur about that time. He could recall that Mr. Brown and Mr. Winchell of Gair and Hinde & Dauch respectively were present. His testimony did, however, contain the following:

"Q. Do you remember that the increase in the price of board took place at that time?

A. Well I don't ever recall an increase in the price of corrugated boxes unless it had been caused by an increase in the price of linerboard, consequently -- and I am afraid I am getting into the assuming class --



- Q. Well don't assume -- just stick to what you remember, please --
- A. All right then -- I don't know when the board went up.
- Q. Would you be surprised to learn that it was not until the day after the meeting?
- A. No.
- Q. Has that been a thing that has happened before, in your experience?
- A. What - about the linerboard?
- Q. That the biggest manufacturers considered the question of a price increase before knowing that there was an increase in board?
- A. Well I never knew of an increase in board that wasn't extremely well rumoured prior to this happening.
- Q. What about the amount of it?
- A. Not the amount of it - that is seldom rumoured.
- Q. Well you couldn't have a decision on a box increase until you had the board - could you?
- A. Well you could - yes - I mean, don't forget that there could be times when the corrugated industry would require to increase their box price even though the board price didn't go up.
- Q. Yes but if there was going to be a board price increase and it was known - that would be a factor - it had to be taken into consideration - had it not?
- A. Indeed - it would have to be, yes.
- Q. So that you may have one increase due to conversion and another increase due to board?
- A. That's right.
- Q. In fact, do you ever remember any occasion on which there was a change in box prices that was not accompanied by a change in board prices?
- A. I don't recall one - no."

The first board manufacturer to increase prices was Bathurst. Its increase was effective on October 1, 1947. At 12.40 p.m. of September 30 the Sales Manager sent the following teletype to the mill Order Department:

"FOLLOWING KRAFT PRICES EFFECTIVE UNTIL FURTHER NOTICE ON SHIPMENTS FROM OCT 1ST ONWARDS.

ONTARIO AND EAST

.009 CORRUGATING	\$1.37 PER M SQ FT
.016 LINER WF1S	2.57       "
.025 LINER WF1S	4.21       "

WINNIPEG

.009 CORRUGATING	1.51       "
.016 LINER WF1S	2.88       "
.025 LINER WF1S	4.63       "

PRICES ON AMERICAN CAN, INDUSTRIAL STEEL AND FIBRE AND PAPER MFRS SALES REMAIN UNCHANGED.

WE ARE ALLOWING CONSIGNMENT ACCOUNTS [sic] TO PURCHASE AT THE OLD PRICE ONE-TWELFTH OF THEIR PREVIOUS TWELVE MONTHS, USAGES. . . ."

(Serial A25632 2BAM)

On this document the Statement of Evidence, comments as follows:

"198. . . . Since all sales to corrugated manufacturers except incidental shipments were to consignment accounts, this really meant a postponement of one month in the effective date of the price change."

(Statement of Evidence, Vol. I, p. 148)

Mr. R.C. Godden, Sales Manager of Brompton, sent the following teletype to M.W. Mullin at the mill on September 30:

"ON OCTOBER 1 THE PRICES OF SHIPPING CASE MATERIALS IS TO BE ADVANCED APPROXIMATELY TEN PERCENT. I AM LISTING BELOW PROPOSED NEW PRICES

.009 CORRUGATING	1.37 PER M. SQ FT
.016 LINERS	2.57       "       "
.025 LINERS	4.21       "       "

THESE PRICES ARE APPROXIMATELY 9.6 PERCENT ON .009 - 10.3 PERCENT ON .016 AND 9.92 PERCENT ON .025.

THE WINNIPEG PRICES ARE AS FOLLOWS

.009	1.51 PER M SQ FT
.016	2.83 PER M SQ FT
.025	4.63 PER M SQ FT

CALGARY PRICES

.009	1.68 PER M SQ FT
.016 LINERS	3.12 PER M SQ FT
.025	5.10 PER M SQ FT

WOULD SUGGEST THAT YOU GO INTO THIS MATTER WITH JOHN MARTIN AND MAKE OUT A NEW PRICE SHEET BASED ON THE ABOVE.

THE CALGARY FIGURES WERE ARRIVED AT BY TAKING A STRAIGHT TEN PERCENT OVER AND ABOVE THE PRESENT PRICES."

(Serial A26027 LCO)

On October 2 a further teletype from Mr. Godden's office advised that the effective date of the price change should have been October 6. This date was specified the following day in a series of announcements telegraphed to customers (Serials 24301 CPO; A26033 LCO; A26034 LCO A25253 DCT).

The prices announced in the teletypes of Bathurst and Brompton for the eastern districts and for Winnipeg were identical except for the Winnipeg price for .016 liner, on which Bathurst specified \$2.88 per thousand square feet and Brompton \$2.83 per thousand square feet. This difference was erased on October 21, 1947 when the Bathurst Sales Manager notified the mill Order Department that the correct price was \$2.83 (Serial 25633 2BAM).

Gair's new prices for jute board per thousand square feet were the same for each caliper as those of the kraft manufacturers, and became effective October 15, 1947 (Serial 2912 1GCT). Hinde & Dauch's price list and notifications of board prices are not in evidence.

The shipping container companies in Ontario and Quebec increased their prices during October on various dates, as shown in the following schedule:

Table 19

The Paperboard Shipping Container Industry,  
Schedule of Effective Dates of General Price  
Change, October, 1947

<u>Quebec and Ontario</u>	<u>Date</u>
Champlain <sup>(1)</sup>	-
Sherbrooke <sup>(2)</sup>	-
Shipping Containers	October 1
Standard	October 13
Martin-Hewitt <sup>(3)</sup>	-
Acme <sup>(3)</sup>	-
Canadian Wirebound	October 14
Corrugated Paper Box	October 15
Dominion Corrugated	October 27
Gair <sup>(3)</sup>	-
Hinde & Dauch	October 10
Hendershot	October 8
Kraft Containers	October 1
Superior	October 20
Hygrade	October 15

- (1) Dates of price changes by this company correspond with those of its affiliate, Standard Paper Box (Evidence, p. 1883).
- (2) Began operations in 1952 .
- (3) Date of price change not in evidence .

Sources: Serials 21080 SPL; 17144 SPB; A25254 DCT; 25263 DCT, A25287 DCT, A25324 DCT, A25344 DCT; A22960 3CPO; 13624 HDT; 46981 HPH; 19464 KCH, 19474 KCH; 9926-27 SBW; 18999 HCL; 14870-77 BAM.

Except for Corrugated Paper Box, all companies in Ontario and Quebec on which there is evidence regarding pricing behaviour on this occasion put into effect exactly the same price increase, i.e., 5 per cent increase on prices calculated through Manual "B". (The Manual "B" prices were equal to Manual "B" costs plus 10 per cent; hence the new prices were Manual "B" costs plus 15 per cent) (Evidence pp. 18-21, 65, 72-73, 261-62, 273-74, 465-69, 486-87, 665-70, 681-83, 737-38, 753-59, 832-33, 838-40, 1122, 1145-46, 1178-81, 1557-60, 1625-30, 5140, 5462-63; Serials 48890-92 3SPL; 11867 CBT 11885 CBT; 24338 CPO; A22918, A22958, A22960, A22512, A18092 3CPO; 4706, 4736 GCT; 36947 2GCT; 13588, 13662, 13707, 13733, 13638 HDT; 19443, 19475 KCH; 46981-82 2HPH; 9917, 9924, 9926-27, 10089-10104 SBW; A24018-21, A24023 2MHP; 18480, 19078 HCL).

There were a few exceptions to uniformity of price increase at this time. Corrugated Paper Box's action at this time resulted in slightly higher prices on some items than would have resulted from a straight 5 per cent increase over former prices. But at some indeterminate time after this and before the next price increase Corrugated Paper Box prices came into line with the other companies' prices (Serials A18113 3 CPO, A23022, 3CPO).

Again, it appears that Kraft Containers' pricing system differed slightly in that its prices were lower on large size boxes (Serial 13638 HDT).

In the Maritimes a price increase had taken place in April, 1947 at which time the rest of the industry had made no change. An undated printed card was circulated by Wilson to its customers apparently in September, which card stated that new prices would be effective October 1, 1947 (Serial A32484 2WBF). But Wilson's decision was not put into effect. This is shown in the following extract from a letter of October 17, 1947 to one of its customers:

" . . .

Regarding prices of containers; although we advised our customers that a price advance on October 1st would take place, this has been deferred for a short while, as we are giving our customers a few weeks grace on this as we have a little bit of paper in stock at the old price, before we use new paper at the higher price.

We have not as yet prepared new list prices and it is quite possible that prices will advance some 5% or 10% within the next few weeks, and at which time we will notify you of this advance - so in the meantime for your purpose you may use the last price list we sent you."

(Serial 21917 WBF)



The probable reason for Wilson's not putting this decision into effect was Maritime's decision not to raise prices at this time. This is shown in a letter from Mr. J. M. Dunkin, Manager of Maritime, to Mr. C. W. Stairs, President of Maritime, dated April 17, 1948:

" . . .

In April 1947 we advanced our prices 7% in relation to a 4% increase in raw material costs, but, in view of the higher profit position which resulted it was decided, by the Lawson interests, to absorb a 10% increase in price which became effective in October 1947 [At that time Lawson Paper Products Ltd. controlled Maritime]. This increased cost of raw material is still being absorbed on goods sold in the New Brunswick territory and also to the larger accounts in Nova Scotia, but, a compensating increase was made late in January on orders for smaller accounts in this province and on all export orders.

. . . "

(Serials A30450-51 2MPH)

The evidence shows that Mr. Roderick of Wilson was in touch with Maritime. Mr. Dunkin wrote to Mr. Tom Lawson on October 16, 1947:

" . . .

Mr. Roderick has phoned us several times in connection with higher paper costs. Yesterday he stated that he was going to increase his prices generally, but, whether or not he actually does so remains, of course, to be seen."

(Serial A30442 2MPH)

Wilson continued to set its prices on the April 1947 basis, i.e., Manual "B" costs plus 10 per cent plus 7 per cent (Serials 21865-70 WBF), but when Wilson shipped to Quebec it charged Manual "B" costs plus 10 per cent plus 5 per cent, i.e., the lower prices adopted in October, 1947 for the Ontario-Quebec area (Serial 21871 WBF).

In Manitoba and Saskatchewan both Martin Paper and Hilton increased their prices at this time. The two companies adopted slightly different pricing procedures, with the result that the prices of the two companies diverged slightly. That this diversion was of no real consequence appears from the following extract from a letter from Mr. W. R. Hilton of Hilton to Mr. J. A. Whealy of Corrugated Paper Box, dated June 10, 1948:

" . . .

In our conversation yesterday you advised that you were not aware of the fact that Martins were allowing 5% for individual carloads. At the time of the last price increase you will recall our opposition [Martin Paper] just added a straight  $7\frac{1}{2}\%$  to their old prices and they allowed a discount for any carload shipment of one size of 5%. We, of course, did not do this but increased our conversion, tape, twine etc., and continued to allow the  $3\frac{1}{2}\%$  for one carload. Actually we have got along not too badly on this basis and our prices have been close but not the same as our oppositions [Martin Paper]. The only place we were working at a real disadvantage was where we had to show a carload discount, and in order to get around this we have on several occasions quoted a net price for the carload rather than show the discount separate. You are quite correct in your statement that you believed the packing houses were getting 5% which is true, but they [Martin Paper] are also allowing the 5% to anyone who buys in carload lots.

. . . "

(Serials 24235-36 CPO)

There is no detailed information available with respect to the pricing practices of Martin Paper, Hilton and Canadian Boxes in the Alberta market in the month immediately following April, 1947. The following extract from a letter of W.R. Hilton to Mr. J.A. Whealy of Corrugated Paper Box dated June 10, 1948 suggests that Martin Paper and Canadian Boxes were selling at prices which were  $7\frac{1}{2}\%$  per cent above their former level, except to certain choice accounts, in respect of which it indicates they had made no increase and that there was some price competition in the area:

" . . .

With regard to Alberta, both of our competitors are selling at the old price before the  $7\frac{1}{2}\%$  increase. B.C. did this and Martins have been meeting them. This last applies to the choice accounts in the province such as the Breweries, Packing Houses and the Glass Companies. B.C. have evidently not been soliciting much from the general run of accounts and Calgary plant are selling most of them at their new price. We have, in two or three instances where our hands have been forced, allowed this price but on 90% of our business in Alberta we are selling at our regular new price. . . .

We will be quite happy to see the day when prices are more or less straightened around and fairly stable, as with two or three different prices prevailing in Alberta, it makes it rather difficult to operate in an orderly manner.

. . . "

(Serials 24235-36, CPO)

There was no price increase in October, 1947 in British Columbia. Canadian Boxes continued to use Manual "B" between the removal of price control and July, 1948. In March, 1948 Canadian Boxes increased its prices for the British Columbia zone by  $7\frac{1}{2}$  per cent. Thus, prices at that time became Manual "B" costs plus 10 per cent plus  $7\frac{1}{2}$  per cent. This price level remained in effect until July, 1948.

2. The Adoption of the Container Statistics Limited  
"Costing" System in Western Canada, July, 1948

(a) The Pricing Situation from November, 1947 to July, 1948

There is considerable evidence of price competition in the western provinces in this period. Price cutting by Winnipeg firms was causing concern to Pacific Mills in November, 1947 (Serials 24326, 24328, 24330, all PML). In the same month Martin threatened Hilton with price competition if the latter adopted a certain pricing method (Serial 24190 CPO). Canadian Boxes was giving price competition to Martin Paper on box sales in Alberta in the period from October, 1947 to early January, 1948 (Serial A26042 LCO). In January, 1948 Martin experienced price competition from the Calgary firm, Canadian Western Boxes, on sales in Alberta (Serials 8447-48 MPP). The competitive pricing situation in Alberta continued as late as March 19, 1948 (Serials 24208-09 CPO).

(b) Process of Adoption of Container Statistics Limited's Manual  
in Western Canada

Mr. Hayes apparently had completed the proposed Container Statistics Limited's "costing" manual for the West prior to mid-March, 1948. In letters written to Mr. John Martin of Martin Paper on March 12, 1948 and to Mr. H. Hilton of Hilton on April 5, 1948 Mr. Hayes indicated that he was forwarding copies of the Ready Reckoner under separate cover, and indicated in both letters that he would be visiting both firms personally (Serials 8454 MPP; 6527 CST).

Mr. Hayes visited Hilton in Winnipeg for three days prior to April 15, 1948 (Serial 24226 CPO). Mr. D.A. Hindle of Martin Paper and H. Hilton of Hilton intended to meet in Vancouver shortly after that date (Serials 24226 CPO; A26051 LCO).

A letter from Mr. Hindle of Martin Paper to Mr. R.C. Goddard of Brompton, dated April 30, 1948 shows that this meeting had occurred and indicates that an understanding had been reached by those present.

The "Paul Cooper" referred to in the following extract from this letter was Mr. Paul E. Cooper who was President of Pacific Mills from 1944 until 1954. In 1956 he was a Director of Crown Zellerbach (Evidence, p. 3621).

"I arrived in Vancouver a week ago last Monday to meet Paul Cooper and Fred Hayes. On arrival we were informed that Paul had had a heart attack and was warned to stay away from business for the next three to four months. Harry Pim, as Vice-President, immediately took over the discussions.

Following those three days of meetings and studying of the new Costing Manuals, etc., I am pleased to say that we arrived at a most friendly relationship and which I feel sure is all for the best in the industry. Here are some of the highlights.

1. Fred informed me that Canadian Boxes Company is now participating in his Statistical Service.
2. Pacific Mills anticipate a Board increase as soon as their Union Wage rates etc., are settled, possibly next month.
3. Canadian Boxes, unknown to us, raised their box prices 7% on March 1st for B.C. only.

I am sorry that I was not aware of this change because our Alberta plant could not take advantage of the October mill increase owing to Canadian Boxes holding down prices in Alberta. In this connection it is my personal opinion that the fundamental cause of this could be traced to the lack of co-operation by a few Eastern Companies and their stubborn attitude last October. This condition, however, will right itself next month, I hope.

I am pleased in that we cleared away a lot of misunderstanding and suspicion and all concerned ended on a more tuneful note of co-operation and cordiality, which is as it should be.



Fred Hayes was indeed helpful with his counsel and thorough knowledge of Costing as affecting Corrugated Boxes.

. . ."

(Serials A26052-53 LCO)

The nature of the understanding arrived at is suggested in Mr. Hayes's letter of April 30, 1948 to Mr. J. M. Dunkin of Maritime:

"Kindly pardon the delay in answering your letter of April 15th, which has been caused by my absence on a trip to the west coast from which I have just returned.

This trip incidentally was very successful and there is every indication that within the next few weeks practically all the corrugated operators will be using the method of costing as developed in the book loaned you. . . .

. . ."

(Serial 23517 MPH)

Discussions among the western converters and Mr. Hayes continued in May. This is shown in a lengthy letter from Mr. Pim of Pacific Mills to Messrs. W. L. Barker and G. Griffith of his staff on April 28, 1948:

"I am setting out in this memo some of the matters we have been talking about during the past few days in a tentative way with regard to a formula for determining selling prices. This deals with corrugated containers on which we anticipate announcing new prices about May 15. I think we should leave further consideration of solid fibre prices in abeyance until the corrugated set-up is determined.

. . ."

(Serial 2439193 PML)

There follows a long list of directions to his two subordinates regarding his proposed changes in the pricing and discount system in effect in British Columbia and Alberta, together with requests to his subordinates to prepare certain information for his use and to send it to him c/o hotels in Toronto and Montreal. The letter concludes:



" . . .

I realize all this involves a lot of calculations but I hope you can put some figures down by next Wednesday, May 5 and airmail it to me on that date c/o Windsor Hotel, Montreal and a copy to Royal York Hotel, Toronto. I want to go over it thoroughly before seeing Mr. Hayes and others on May 10. Suggest you make a separate sheet for each of say, 10 boxes - in various quantities as mentioned above - both B.C. and Alberta and show me the detailed workings in building up the selling prices and be sure to show the weight of each box (per M) so that I can quickly calculate any new Toronto or Winnipeg prices I may hear about plus freight to Alberta."

(Serials 24391-93 PML)

The significant points in the above letter are that Mr. Pim expected to meet with Mr. Hayes and others in Montreal or Toronto, on May 10, and that he anticipated the announcement of new prices about May 15.

Despite the fact that an understanding appears to have been reached between several of the western producers in Vancouver in April the decision of the western firms associated with Container Statistics to put the manual system of pricing into effect was delayed for some time. As will be shown in a later section of this chapter, discussions had been under way in Eastern Canada for some months between the board and container producers with a view to getting prices raised. Any such move on the part of the eastern producers would have a very direct impact on prices that could be charged by the western producers. For this reason the announcement of new prices in the West would be dependent upon the prices of board and of boxes established in the East. The impatience of the western producers is indicated in Mr. Hindle's letter to Mr. R.C. Godden of Brompton dated June 7, 1948:

"Your letter of the 3rd only reached me today but since you wrote I have talked with you over the phone. We have just about come to the decision of increasing our prices regardless of the tardy manner of our mutual friend. Six months have dragged along and surely to goodness he has had plenty of time to make up his mind. However, I will be interested to hear from Mr. Hayes as soon as the discussions are ended in the next day or so, I hope. We are right into the busy season just now. So also are our local competitors but it seems absurd with all this rush that we are selling our product at cost, and in some cases slightly less.

. . . "

(Serials A26058-59)

The postscript to this letter was: "Will appreciate your wire following our meeting Tuesday [June 8]".

On June 9, 1948 Mr. Hindle wrote to Mr. Hayes:

"Thank you for your letter of the 7th. I will be interested to learn the result of today's discussion as soon as possible. If our friend perchance made a snap decision - favorable today, I'd ask you to shower him with a few rum and cakes, but what a hope. We, therefore, may as well proceed to draw up a new method for the West. Of course, we shall wait your further advice in the meantime.

. . .

These and other matters we can discuss on your next Winnipeg visit soon, I hope! "

(Serial 8461 MPP)

By June 8, 1948 the new western manuals were all in final form, except for the cost of material sheets, the latter obviously dependent upon the price of board. Mr. Hayes wrote Mr. Hindle on June 8:

"Under separate cover we are forwarding you seven books properly put together for Manitoba and Saskatchewan costing and one book for Vancouver or Alberta. All books are without material sheets and they should be held for use when the material is forwarded to you."

(Serial 8460 MPP)

By June 1, 1948 Mr. Hayes made an analysis of the price relationships for cartons in Eastern Canada and Western Canada in an undated and unsigned memorandum found in the files of Corrugated Paper Box. The schedule to which it refers is also in evidence (Serial 24234 CPO). The following is from this memorandum:

"Further to our telephone conversation it now appears that the maximum increase in liner prices in the east will be  $7\frac{1}{2}\%$  and that the new liner prices will probably be:

009	-	\$1.47
016	-	\$2.76
025	-	\$4.53

I am going to assume in the following that the Pacific Mill liner board prices will be competitive.

There is also every indication that the Ontario carton costs will be based on the above and for the 65 lb. carton 016-009-016, the total material cost including twine, will be \$8.74 per M sq. ft. The conversion tables used will be 0 conversion. This is altogether too low for to-day's costs but it is the best to be expected at the moment under the circumstances that exist here.

The mark-up will of course have to be competitive and as I know one company who propose to use  $7\frac{1}{2}\%$ , this will undoubtedly set the figure even though many will feel that 10% is warranted. While it may go to 10, the attached summary has been made at  $7\frac{1}{2}\%$ , but this would not affect the summary except to make the western position more secure from eastern competition.

. . . "

(Serials 24231-33 CPO)

There then follows an analysis of the relationships between the costs and mark-ups in Toronto, freights to Alberta and Vancouver from Toronto, and an analysis of costs, mark-ups, prices, and discounts in the Alberta market. With regard to competition in the Alberta market from Winnipeg producers, the memorandum said:

" . . .

It has not been possible to make an accurate summary of the effect of Winnipeg prices on the Alberta territory as material costs in Winnipeg are not at the moment available. I have however, made a rough summary of the above, which can be put into operation without danger of cartons purchased at the Winnipeg price plus the freight into Alberta. All the above is based on Toronto manufacturers not allowing any freight repaid [prepaid] on western shipments and I don't feel that there is much possibility of any of them doing this.

This being sent with the possibility that you might be able to make some general decisions prior to the change in material costs."

(Serials 24231-33 CPO)

Mr. Hayes sent out an unsigned memorandum headed "NOTES ON THE SUMMARY AND COMPARISON OF COST AND COMPETITIVE PRICES TORONTO - VANCOUVER - ALBERTA - WINNIPEG DATED JUNE 12th 1948". This was a revision of the memorandum referred to above. But the expected  $7\frac{1}{2}\%$  per cent increase in the price of linerboard was abandoned and the calculations were based upon the

assumption that the eastern board prices would remain unchanged. This memorandum and the attached schedule were referred to previously in this report, Section 9, Chapter IV (Serials 24237-38 CPO).

Further consultation between the western firms occurred in June 1948. On June 16, 1948 Mr. Pim wired Mr. D.A. Hindle of Martin Paper as follows:

"Gordon Griffith and sender arrive in Winnipeg via air Sunday afternoon and plan to leave 5:55 P.M. Tuesday [June 22]."

(Serial 24402 PML)

Mr. Pim also wired F.C. Hayes on the same day:

"Gordon Griffith and sender plan arrive Winnipeg Sunday afternoon stop. . . Do you have the more essential material cost sheets based on seven one half percent increase stop Please confirm it will be convenient for you to be with us in Winnipeg."

(Serial 24403 PML)

On June 25, 1948 Mr. Pim wrote a memorandum entitled "PROPOSED ACTION ON BOX MATERIAL AND BOX PRICES" from which the following is extracted. This memorandum is particularly interesting because it sets out the proposed changes in "costing" which actually were put into effect early in July when the full Container statistics' system was put into effect in Western Canada. Notable are 7½ per cent increase in the price of board on the part of Pacific Mills, increase in mark-ups applicable to British Columbia, cancellation of "current varying discounts", cancellation of discounts for carload lots of mixed sizes of board, the intention to increase mark-ups in Alberta to 15 per cent and to cut out the 5 per cent two carload discount applicable in Alberta provided that the price increase expected in Eastern Canada were high enough. The memorandum, of course, indicates the dependence of western prices upon the price structure in Eastern Canada.

#### "PROPOSED ACTION ON BOX MATERIAL AND BOX PRICES"

1. It is hoped the following arrangement will be put into effect July 5th, but the exact date will depend upon availability of revised cost sheets now in process of being prepared.
2. It is proposed that the selling price of liner and corrugating of Pacific Mills to Canadian Boxes shall both be increased 7½%.



3. In arriving at box prices in B.C. the formula will be:

Ready Reckoner ( New material cost on above basis  
( Conversion costs 0 + 15  
( Closure cost  
( Added costs  
( Printing costs

The foregoing added, to be subject to 15% mark-up. In addition, there will be machine charges continued on exactly the present basis.

It is proposed to use the 15% mark-up for basic box prices. There will be varying percentage mark-ups for small quantity orders; the exact mark-up is being determined.

4. It is proposed to allow a  $3\frac{1}{2}\%$  discount for one car and over. For qualification for 'carload' see Manual 'B'.
5. Unless prior to July 5th the manufacturers in Quebec and Ontario increase their box prices, our formula for determining prices in Alberta will be as follows:

The same formula as listed above for B.C., except the basic mark-up is to be 10%.

The discount arrangement for Alberta is to be  $3\frac{1}{2}\%$  on 1 car and 5% for 2 cars, until such time as it is definitely known Eastern box prices have been increased. The reason for this is that it is desirable to establish in Alberta a minimum 10% mark-up. Anything higher than that figure at the present time would enable Eastern people to quote on certain carload business at the Eastern price which, plus freight, would land in Alberta at lower prices than ours if we do not allow the 5% discount.

Current varying discounts are to be cancelled and no carload discount for mixed carloads of various sizes.

When the Eastern Schedule has been fixed, it will be our intention to drop the 5% 2-carload discount. As I say, for the time being, the Alberta mark-up is to be a minimum 10%, and when prices are arrived at in this manner, we will add \$1.19 per 100# freight, to get the f.o.b. Alberta, laid down, cost. There



will only be the one zone for the whole Province,  
and the f.o.b. points are to be:

Calgary	Red Deer
Edmonton	Raymond
Redcliffe	Tabor
Lethbridge	Medicine Hat
Camrose	Brooks

Buyers will have to take care of charges on goods  
going to other destinations; that is, the charges from  
the nearest f.o.b. point.

. . .

10. One final note: In the event the price increase in the East is high enough, we should aim at increasing the Alberta basic mark-up to 15%, in addition to cutting out the 5% 2-carload discount. This is something that will have to be calculated very carefully. If, however, the Eastern price does not move by July 5th, we will proceed on the above basis; then, if 2 or 3 weeks later the Eastern price jumps, I would wait at least 3 months to make the second increase in Alberta."

(Serials 9760-62 CBV)

On June 30, 1948 Mr. W.L. Barker of Canadian Boxes wrote a memorandum to Mr. D.C. Vivian, a sales representative of Canadian Boxes in Vancouver. This memorandum is concerned chiefly with the instruction of Mr. Vivian in the use of the new Ready Reckoner manual. It does, however, include the following:

" . . .

You will, of course, be discussing this pricing with George Holland [ Martin Paper, Calgary ], and perhaps others, and various prices should be worked out between you and comparéd, so that absolute agreement will be established in following the Ready Reckoner method of pricing.

I cannot stress too strongly that, when actively discussing box pricing and estimating with these people, rather inconsequential points should be left alone, as they always lead to general discussions that ultimately tend to confuse the whole issue. The Ready Reckoner Manual should be followed strictly, and prices worked out that are applicable only to the pages contained in the Manual. The introduction of other matters will only result in confusion and waste of time.

You should have no difficulty during your two days' stay in Calgary. However, if any points come up, don't hesitate to phone."

(Serials 9763-65 CBV)

The oral examination of Mr. Barker on these matters included the following:

"Q. Did Vivian report back to you later that this meeting had taken place?

A. Yes.

Q. Did he say that Holland was there as planned?

A. No.

Q. What did he say to you about that?

A. I believe that he said that he saw Holland.

Q. Why did you say there 'You will, of course, be discussing this pricing with George Holland'? Was it the customary thing in your company for pricing to be discussed with George Holland?

A. No, but Mr. George Holland is an acquaintance of ours. It sounds very specific there but he would talk to George Holland sure -- general business or anything else.

Q. Is it usual for you to talk prices with your acquaintances in your company?

A. Our selling prices.

Q. For specific boxes?

A. Sure.

. . .

Q. You are the sales manager of this company and you told Mr. Vivian to work out prices with George Holland and perhaps others 'so that absolute agreement will be established in following the Ready Reckoner method of pricing'. Now, why did you tell him that?

- A. To show the use of the word 'pricing' there as cost. That is the point. The use of 'pricing' in that memo is the cost manual.
- Q. That is not answering my question. Why did you tell him that absolute agreement should be established?
- A. Because the manual was just newly brought out and in the interpretation of the use of the manual the point was that there would be full understanding of the points in the manual.
- Q. I appreciate that but I am asking you as sales manager of the company --
- MR. FARRIS: Surely, Mr. Commissioner, this witness has answered this question to the best of his ability. It seems to me it is a clear answer. It may not be the answer that Mr. Gascoigne wants but that is his answer and he has answered it four or five times now.
- MR. GASCOIGNE: He has not yet answered my question as to why he, as sales manager of the company --
- MR. FARRIS: He says because it was a new manual and they wanted to get a proper interpretation of it. That is why he did it.
- MR. GASCOIGNE: And I asked him about what was his object as sales manager of the company and what was his interest in having Martin's in absolute agreement with the method of following the Ready Reckoner.
- THE WITNESS: The instruction I was giving was to make sure that that manual was understood by both Alberta branches of Hudson Paper Company and the only other person in Alberta at that time was Martin's. We were using the same manual and that Mr. Holland's interpretation of the manual was the same as ours. That is all I was directed to do.
- Q. Now you have answered it. Who gave you the instructions?
- A. Mr. Pim did.
- Q. And did he say anything about a mark-up?
- A. No.

Q. Did he tell you to have your people at Hudson Paper and Martin check on prices?

A. No."

(Evidence, pp. 3451-59)

Mr. Holland of Martin Paper, when examined on these matters, denied that he had ever met the representatives of Pacific Mills to discuss the Ready Reckoner manual. He denied that he had sent anyone else from Martin Paper in Calgary to any such discussion. (Evidence, pp. 3292, 3294-96).

On July 2, Mr. F.C. Hayes disseminated a series of documents entitled "MEMORANDUM - JULY 2nd, 1948". The first paragraph of this memorandum reads as follows:

"MEMORANDUM - JULY 2nd, 1948.

Attached to this memorandum is a record summary of conditions in the following territories:

1. British Columbia
2. Alberta
3. Saskatchewan (Zones 1 & 2)
4. Manitoba

These are sent to you for your personal information and if you require copies for your own confidential file, kindly make some, and in any case, return these originals to me personally.

. . ."

(Serials 24243-52 CPO; 9157-64 HBL)

This part of the document has already been quoted in Chapter IV, section 6 of this report.

The first item referred to, the record summary of conditions in British Columbia, is a lengthy memorandum which, while purporting to be a record of the situation in effect on July 2, 1948, was in fact a statement of the "costing" basis which was adopted by Canadian Boxes three days later, on July 5. It consists of a statement of the prices of the three basic grades of paperboard, namely, the .009, .016 and .025 liners, the costs of the various types of combined board, and a detailed statement of the method of computing costs according to the Ready Reckoner manual (Serials 24249-50 CPO; 9145-46 HBL; 8154-55 MPP). In two examples of costing set out in Serial 24250 a mark-up of 15% over the cost factors is indicated.



The material costs for paperboard outlined in the memorandum were those adopted by Pacific Mills on July 5 in respect of .009 and .016 material (Serials A35324 BNG - part Exhibit 50). Canadian Boxes had never manufactured any shipping containers from .025 liner (Evidence, pp. 3426-27).

With respect to the adoption of the Container Statistics manual for British Columbia, the Statement of Evidence says:

"76. The CONTAINER STATISTICS manual for British Columbia and Alberta with the mark-ups and other features indicated in Mr. Pim's memoranda were duly taken into effect by CANADIAN BOXES. The date of the price change was July 5, 1948, as suggested by Mr. Pim (Serials 9760-2 CBV; A35324 BNG (part Exhibit 50)). For Alberta, MARTIN PAPER made the same changes on July 8 (Serial 7559 MPP) and HILTON on July 12 (Serials A7395-6, A7409-10, A7466-7, A7507-8, A7527-8, A7605-6, all 2HBL), the same date as they adopted the new manuals and mark-ups applicable to the Manitoba-Saskatchewan territories (Serials: For MARTIN 7559 MPP; for HILTON A6962-3, A6984-5, A7151-2, A7165-6, A7195-6, A7277-8, all 2HBL)."

(Statement of Evidence, Vol. II, p. 254)

3. Events Leading up to the Adoption of the  
Container Statistics "Costing"  
System in Eastern Canada,  
October, 1948

The first half of 1948, during which negotiations took place leading up to the adoption of the Container Statistics "costing" system in Western Canada, also saw the negotiations between eastern firms with regard to the adoption of the same system, although these did not come to fruition until the fall of the year. Documents indicate that the eastern Ready Reckoner had been prepared and distributed prior to April 8, 1948 (Serials 20345-48 MPH, 20087 MPH). On April 9, 1948 Mr. Hayes sent a letter to his clients calling a meeting for Thursday, May 6 at the Royal York Hotel, Toronto (Serial 20241 MHP; duplicates 24216 CPO; 12101 CBT; A25267 DCT). Two replies are in evidence, showing that a representative of Dominion Corrugated (Serial 25268 DCT) and G.W. Brown and A.L. Mitchell of Gair (Serial 2964 GCT) planned to attend the meeting. Copies of the tentative agenda for the meeting were sent under "Personal and Confidential" cover. A copy from the files of Hinde & Dauch indicates it was received on May 3, 1948 (Serial 13714 HDT). Other companies on whose premises copies of this tentative agenda were found were:



Canadian Wirebound	(Serial 12102 CBT)
Corrugated Paper Box	(Serial 24306 CPO)
Standard	(Serial 16447 SPB)

The subjects mentioned in this agenda are not all of importance to this section of the report. The section quoted hereunder is, however, important inasmuch as it indicates that the discussion of questions which have a direct bearing upon pricing was planned.

#### "TENTATIVE AGENDA

FOR MEETING THURSDAY MAY 6th ROYAL  
YORK HOTEL. DINING ROOM B, 10 A.M.

. . .

#### C. COSTS

1. Question of costs in relation to discounts to sales agents on single faced rolls.
2. Question of costs in relation to 5% two car discount.
3. Question of cost in relation to machine charges.
4. Question of costs in relation to Panels under 5" in two or three piece Lamberts.
5. Question of costs in relation to 3½% one car discount on 025-009-025 or 025-009-016 where total square feet is 120,000 or over.
6. Question of effect of freight increase on costs.

. . . "

(Serial 13714 HDT)

Two other questions of importance to another section of this report which were on the agenda were concerned with B-flute partitions and the revisions of the Canadian freight classification.

A memorandum written by Mr. C. Baird to Mr. M.H. McArthur, General Sales Manager of Hinde & Dauch, on May 4, 1948 contained a discussion of the foregoing tentative agenda item by item (See Chapter IV, section 2(c) of this report). The importance of this document lies in its showing that the agenda proposed by Mr. Hayes was very carefully considered by this company (Serials 13715-19 HDT). A further memorandum, written by Mr. McArthur on May 11, 1948 to Mr. Baird, was entitled "Container Statistics Meeting, May 6th". Among other things the memorandum contained the following:

" . . .

C. Costs

There was considerable discussion on the matter of costs in relation to car and two-car discounts, and on motion of the writer this was deferred until our next meeting.

We should give a good deal of thought to eliminating the 5% discount on two-car lots which, it would appear, is the general opinion, for undoubtedly we would be playing into the hands of the smaller manufacturer as a great percentage of our tonnage is in two-car lots. Although we need the discount that we now give, yet looking at the picture over a long pull it would appear that we should have two discounts even though we reduced both of these to say, 2% minimum and 3½% maximum discount.

. . . "

(Serial 13712-13 HDT)

A third memorandum, also written by Mr. McArthur on May 11, this time to the General Manager, and dealing with the meeting of May 6, is concerned with A and B-flute production and also the matter of costs:

" . . .

(2) Costs in relation to carload discounts

The question of costs in relation to carload discounts, 3½% minimum and 5% maximum, was evidently brought before Hayes while on the West Coast, and we can very well appreciate that without any competition whatsoever they more or less make their own prices and terms. But having established over the years a minimum and a maximum discount, to my mind it would be well to continue even though we reduced both the minimum and maximum to, say, 2% and 3½%, for unquestionably it does tend to encourage the buyer. The time has come when 1½% spread would be seriously considered, and with a great number of accounts such as Procter and Gamble, Lever's, Canners, Cellulose Cotton Products and National Breweries, etc., it is quite an item.

. . . "

(Serial 13711 HDT)

Mr. Hayes's letter of May 27, 1948 to Mr. Plm of Pacific Mills shows that at this time Mr. Hayes was busy collecting cost information from various firms. The following is an extract from this letter:

"My apologies for not answering your note of May 18th at an earlier date, but I have been terribly tied up in trying to get opinions on to-day's cost.

. . .

In reference to the agenda forwarded to you for the meeting of May 6th, we expect to issue a brief report on any decisions made in this and subsequent meetings. We have learned through past experience that detailed reports are not a good policy. None has been issued as nothing was settled at this meeting and everything is being held for the board situation to get stabilized. I might add however, that all the points brought up at your request were well taken and I believe action will be started very shortly, particularly on question C.2 and C.3.

I am glad that you enjoyed your visit here, for I certainly enjoyed having you and am looking forward to a return visit.

. . ."

(Serial 24401 PML)

Around the end of May, 1948 Mr. Hayes wrote a comprehensive memorandum, entitled "MEMO OF COSTS REGULAR STYL CARTONS AS AFFECTED BY COMPETITIVE PRICING AS OF OCTOBER 1ST 1947", which was studied by officials of Hinde & Dauch. This undated memorandum was attached to a handwritten note by Mr. M.H. McArthur to Mr. C. Baird which stated:

"You might be interested in looking this over for it is sound thinking if of course it can be accepted by all."

(Serial 13742 HDT)

Mr. Baird's reply dated June 30, 1948 was:

"Mac -

Hayes has expressed the situation very ably in this memorandum. Of course, the same thing was evident at the time the Kraft Group went ahead and put in a general

5% increase on selling price.

You will recall that, in October, 1947, we attempted to continue the 'Cost plus Mark-up' method, which, as Hayes proves in this memo, is the correct method, but finally had to fall in line in order to meet the Kraft Group competition."

(Serial 13741 HDT)

The document referred to above, "MEMO OF COSTS REGULAR STYLE CARTONS AS AFFECTED BY COMPETITIVE PRICING AS OF OCTOBER 1ST 1947" with numerical examples, was devoted to an exposition of what Mr. Hayes considered to be the shortcomings of raising the prices of all corrugated cartons by a flat percentage, arguing that the flat percentage increase of 5 per cent on October 1, 1947 was not sufficient to cover the increased material costs put into effect at that time. The details of this and of other technical matters connected with "costing" through the Ready Reckoner do not concern us in this section of this report. One excerpt shows, however, that the technical discussion in the letter was for the purpose of laying a "correct" basis of thinking for a proposed price change:

". . .

I wish to point out the danger of any method where this product changes its selling price on all sizes, shapes and grades, the same percentage across the board, and to repeat that there is only one correct way to secure carton costs, and this is as follows:

1. The correct material
2. The correct conversion
3. The correct closure
4. Addition is total costs
5. Your own mark-up
6. Selling price.

I was hoping and in fact, was under the impression that some of the errors of the previous increase were now understood by all, but this is not evidently correct, as the same type of thought is again in the picture, although in a slightly different form.

". . ."

(Serials 13744-47 HDT)

Discussions continued in July, 1948 as shown in the following extract from a letter of Mr. F.C. Hayes to Mr. John Martin of Martin Paper dated July 21, 1948, which indicates that Hygrade was causing difficulties in establishing the Container Statistics system in the East:

" . . .

Things are in a very critical stage in the East. We have just completed discussion with Mr. Ivy [Mr. Ivey, of Hygrade] and it was not very satisfactory, but we hope to have another in the very near future. Unless a more stable arrangement is reached than now exists it is quite possible that prices in the east will decrease rather than increase and this of course is bound to have an unfavourable effect in Winnipeg. I am so afraid that it will only take one little firecracker such as your letter to set off the powder cap so I propose to withhold the information about your letter until something definite is decided in the East.

. . ."

(Serial 8467 MPP)

The discussions were still going on in September, as is shown by the following extract from a letter of Mr. Roderick of Wilson dated September 13, 1948 to an export customer:

" . . .

For your information there has been no change in the board price at this writing, but the writer sat in with the paper people at Toronto and Montreal last week, and they definitely decided that the price was to advance 10%, but they have not agreed on a date to put this advance into effect.

It is the writer's opinion that this advance will go into effect after the new year, although others who are on the inside seem to feel that the price may go into effect immediately -- however we will have to wait until the change is officially announced, and then, of course, will have to change our prices accordingly, but you may depend that our Company will be the last to change their prices.

. . ."

(Serials 21950-51 WBF)



Finally, on October 4 came the first announcement of increased board prices. The first announcement was made in telegrams sent out by Brompton on October 4. With respect to this the Statement of Evidence has this to say:

"107. . . . One of these to CORRUGATED PAPER BOX at Toronto has the telegraph office's stamp indicating its receipt at 4:36 p.m. (Serial 24277 CPO) and another to DOMINION CORRUGATED was stamped 4:45 p.m. (Serial A25284 DCT). The decision at BROMPTON was apparently not made until October 4, when Mr. Godden advised the BROMPTON mill responsible for shipping and invoicing, as follows:

'Effective Tuesday, October 5, all prices on shipping case materials are advanced ten percent as follows -

Eastern prices	.009	\$1.51	per M sq. ft.
	.016	2.83	" "
	.025	4.63	" "
Winnipeg	.009	1.66	" "
	.016	3.11	" "
	.025	5.09	" "

As far as Calgary is concerned if any shipments are going forward in the course of the next few days ship on memo invoice. We will be advising you of the Calgary prices as quickly as possible.'

(Serial A26064 LCO)

Later on the same day R.M. Milligan, Mr. Godden's assistant, confirmed these prices and also added Calgary prices as \$1.74, \$3.26 and \$5.33 (Serial A26065 LCO). These Calgary prices, however, were to be revised later in correspondence which will be detailed.

108. BATHURST's announcements to Eastern manufacturers were sent out by wire the following day, October 5, setting the same prices as had been announced by BROMPTON but effective on October 6, 1948 (Serial 21107 SPL), and also on October 5, 1948, the Mill Order Department of BATHURST was notified by telephone of the change, including Winnipeg prices at the same figures as those of BROMPTON, all this appearing in a confirming letter from Mr. Cockerill the following day (Serial A25631 2BAM). HINDE & DAUCH

made its announcement of identical prices on October 6, 1948, phoning the information and confirming by letter (Serial 21957 WBF). Finally, GAIR's price list adopting identical prices became effective October 6, 1948 (Serial 2974 1 GCT)."

(Statement of Evidence, Vol. II, pp. 288-89)

On October 4, 1948, the day that the first announcement of an increase in the price of board occurred, Mr. Hayes sent a letter to Mr. J.M. Dunkin of Maritime. This letter is as follows:

"Dear Mac:

Confirming our telephone conversation of today, I understand that the price of liner board is going to be increased to -

009	-	\$1.51
016	-	\$2.83
025	-	\$4.63

We have prepared a summary of 65 lb. cartons and 40 lb. cartons to assist you in arriving at your own conclusions. Particular attention should be paid on both sheets to items 10 and 11 which are the delivered prices in 1 and 2 Car Load lots from Montreal. It appears possible for you to use current material costs and conversion at 15% which is now in the book you possess with a mark-up of maximum  $12\frac{1}{2}\%$ , although this throws your price very close, and in small sizes slightly over the delivered price from Montreal.

As an alternative you could drop down to conversion 10 which is the basis being used in Ontario and Quebec and with a maximum Mark-up of  $12\frac{1}{2}\%$  you would be under the Montreal delivered price, except on a very small box. I would suggest that you study this list very carefully.

Should you decide, and I believe it would be the basis that I would select, on the 10 conversion and the  $12\frac{1}{2}\%$  mark-up, the comparison between orders of less than 1 car is to compare item 9 to item 32. For 1 car lot compare number 10 to 33 and for 2 car lots compare number 11 to 35.

I will call you Thursday morning on this matter."

(Serial 22758 MPH)

This letter has already been quoted in Chapter IV, section 6. The sheets, dealing with the pricing of 65 lb. boxes, show the make-up of pricing ("cost") components in Montreal, freight to Moncton or Saint John, and laid down prices at the latter points. The sheets also show several alternative "costings" with varying conversion costs and mark-ups to be used by Maritime companies, including the one "10 conversion and the 12½% mark-up" which Mr. Hayes recommended. The various calculations indicate clearly how low or how high Maritime prices calculated by these alternatives would be in relation to prices of cartons laid down in the Maritimes from Montreal (Serials 22727-28 MPH).

The first important Ontario company to make formal announcement of a price increase was Canadian Wirebound, which did so on Friday, October 8, 1948. On October 7, 1948 Mr. Hayes had sent identical form letters to manufacturers in the Central Provinces, the following being in evidence:

Standard	-	Serials 16197-99 SPB
Canadian Wirebound	-	Serials 12130-32 CBT
Martin-Hewitt	-	Serials 20084-86 MHP

The same form letter was sent to Maritime on October 15, 1948. This letter is as follows:

"You have informed us of changes in the cost of your paper board and I understand that today's basis is as follows:

.009 - Kraft or Straw	...	\$1.51 for M. sq. ft.
.016 - Kraft or Jute	...	\$2.83 " " " "
.025 - Kraft or Jute	...	\$4.63 " " " "

We have worked these new coats [sic - costs] through the formula established in Administrators Manual B and the following are the results:

009-009 - Single Faced	...	\$4.34 Per M. sq. ft.
016-009 - "	...	\$5.78 " " " "
009-009-009 Double Faced		\$6.30 " " " "
016-009-009 " "		\$7.52 " " " "
016-009-016 " "		\$8.96 " " " "
025-009-016 " "		\$11.16 " " " "
025-009-025 " "		\$13.16 " " " "
009-009-009-009-009 D. Wall		\$10.92 " " " "
016-009-009-009-009 " "		\$12.42 " " " "
016-009-009-009-016 " "		\$13.92 " " " "
016-009-016-009-016 " "		\$15.42 " " " "
025-009-025-009-025 " "		\$22.31 " " " "

We are forwarding you under separate cover, Costing Manuals on Ready Reckoner method with material sheets based on the above and with conversion based on 10% increase over Manual B.

Our staff hope that these manuals have been correctly collated but as speed was essential we are asking you to check the Manuals against the attached list. Please see that each member of your staff, who have been given a Manual, check the pages carefully. It is quite possible that your staff can work more efficiently with the pages of the Manual rearranged but this is a matter of cut and try. They will undoubtedly find the R.R. system a little strange at first but results in Western Canada have been very gratifying after becoming accustomed to it.

We expect to have total sheets on many items to you within a week. These will be printed on green paper and represent material and conversion pre added for you. We are also forwarding shortly, sample copies of a folder form to be used on each individual product. We would like your comments or suggestions on this.

Two items need particular attention.

1. The method of Partition Costing. (Fully covered in instructions).
- 2A. Changes in conversion on sheets with more than 6 parallel across in either or both directions.
- 2B. Change in machine charge in scored sheets. (See page 1A-1B-1C)."

(Serial 23489 MPH)

The timing of the price increases by the various firms is related in the Statement of Evidence, Volume V, in Schedule VI of Appendix II. This is as follows:

Table 20

The Paperboard Shipping Container Industry,  
Schedule of Effective Dates of General Price Change,  
October, 1948

<u>Maritime Provinces</u>	<u>Date</u>
Maritime	October <sup>(1)</sup>
Wilson	October 15 <sup>(2)</sup>
<u>Quebec and Ontario</u>	
Champlain <sup>(3)</sup>	October <sup>(4)</sup>
Sherbrooke <sup>(5)</sup>	-
Shipping Containers	October 18
Standard	October <sup>(4)</sup>
Martin-Hewitt	October 12
Acme	October 21 <sup>(2)</sup>
Canadian Wirebound	October 8
Corrugated Paper Box	October 12
Dominion Corrugated	October 27
Gair	October 12 <sup>(2)</sup>
Hinde & Dauch	October 9
Hendershot	October 6 <sup>(2)</sup>
Kraft Containers	October 18
Superior	October 13
Hygrade	October 12

- 
- (1) Between October 15 and October 19, 1948.
  - (2) On or before this date.
  - (3) Dates of price changes by this company correspond with those of its affiliate, Standard Paper Box (Evidence, p. 1883).
  - (4) Between October 7 and October 16, 1948.
  - (5) Began operations in 1952.

Sources: A30450-51 2MPH; 21916 WBF; 21080 SPL; 17144 SPB;  
A25254 DCT, 25263 DCT, A25287 DCT, A25324 DCT,  
A25344 DCT; A22960 3CPO; 13624 HDT; 46981 HPH;  
19464 KCH, 19474 KCH; 9926-27 SBW; 18999 HCL;  
14870-77 BAM.



At this time the companies in the Central Provinces adopted the Container Statistics manual, a standard mark-up of 5 per cent, and continued to adhere to the terms and conditions of sale established under the regime of Manual "B". This is shown by the pricing records of all companies in the Central Provinces with two exceptions: Sherbrooke, which did not begin production until 1952; and Dominion Corrugated, which produced only single-faced corrugated sheets and rolls which cannot be "costed" by the Manual system. The effects of the changes in the prices of board in Eastern Canada had effects upon the pricing of boxes in Western Canada which are described in the following extracts from the Statement of Evidence:

"124. In British Columbia where, in the previous July, PACIFIC MILLS had raised their board prices and CANADIAN BOXES had adopted the Ready Reckoner and instituted a price increase, no price increase took place in October. PACIFIC MILLS board prices, which for a few months had been  $7\frac{1}{2}$  per cent higher than Eastern board prices, were now some  $2\frac{1}{2}$  per cent below them. The relationship between British Columbia and Eastern shipping container prices, however, is not determined by the level of material cost alone. The mark-up over 'manual costs' used in British Columbia was fifteen per cent and the Eastern mark-up was 5 per cent. This was characteristic of B.C. pricing throughout the period and was made possible by the high freight rates applicable to finished boxes. In 1948 CANADIAN BOXES was the only purchaser of board from PACIFIC MILLS, so that the relationship of Eastern and Western board prices had no real significance except to PACIFIC MILLS itself.

125. In Alberta the effect of the increase in Eastern board prices was an immediate increase in material costs for the MARTIN PAPER plant, because it was at this time getting all its supplies from the Eastern mills. It will be remembered, however, that the Alberta price structure had been artificially based, using B.C. material costs plus an arbitrary freight factor. At the time of the July increase, when Mr. Pim recorded the decisions as to Alberta prices, he had indicated that the mark-up over the manual would be 10 per cent unless the Eastern board mills instituted a price increase, in which case it would be 15 per cent (Serials 9760-2 CBV). There is no documentation of any discussions between the competing box companies in the West at the time of the October board increase, but new pricing was adopted by all three companies doing business in Alberta on the basis of continued use of the manual plus a mark-up increased from 10 to 15 per cent. A list of price change dates for CANADIAN BOXES indicates that this company changed on October 1 (Serial 91363 2CBV; Evidence pp. 3422-3). Since

Mr. Pim had indicated that the introduction of the higher mark-up was to be dependent upon board prices increasing in Eastern Canada, the anticipation of this increase by three days implies that CANADIAN BOXES were in receipt of advance information about Eastern plans. HILTON's price change was on October 12 and while that of MARTIN PAPER cannot be pinpointed, it was probably October 13, as this was the date of its change for the Manitoba-Saskatchewan zones.

126. In the Manitoba-Saskatchewan zones, the change which took place in October was the introduction of new material sheets for the manual, at a higher level than those previously in effect. They were calculated by Mr. Hayes on the basis of the new Winnipeg board prices issued by the Eastern mills. Otherwise the same Ready Reckoners and the same mark-up of 10 per cent continued in effect. HILTON apparently had received instructions from the parent company, CORRUGATED PAPER BOX, as to the basis of the new Manitoba-Saskatchewan prices on or before October 8, 1948, which was four days before CORRUGATED PAPER BOX itself announced its price increase in the East. This appears from the following copy of a telegram to F. C. Hayes found in MARTIN PAPER's files, dated October 8:

'Henry [HILTON] advises that his Toronto office instructs him to use new material sheets and conversion plus ten STOP Then mark up of ten to arrive at new prices STOP We question this proposal STOP Query Whealy [CORRUGATED PAPER BOX] Rush & charge

D.A. Hindle'

(Serial 8472 MPP)"

(Statement of Evidence, Vol. II, pp. 305-06)

4. Events Leading to the Price Increase of  
September, 1950

Between the general price increase of October, 1948 and the general increase of September, 1950 there was continuing consultation between the firms associated with Container Statistics and between Mr. Hayes and his various clients. No extensive or chronological presentation of the evidence on these activities will be given here, for much of it was presented in Chapter IV, section 3 of this report which deals with the method of revision of the Manual. It will suffice to

indicate briefly some of the types of activity which occurred in this period.

Mr. Hayes made proposals for changes in "costings" to members of the group, received their comments, criticisms and suggestions, revised his proposals and sent them out again, and by this procedure evolved "costings" which were agreeable to the firms. He sometimes made use of questionnaires in exploring "costing" problems. Some of the matters on which Mr. Hayes issued questionnaires or made proposals were: single-faced sheets (Serials 13876-78 HDT; 23486-87 MPH); wrapping, tying, and waxing costs and white patent-coat board (Serials 13894 HDT; 21925, 21927 WBF; 24292, 24294 CPO; 16231 SPB); printing (Serials 13914-21 HDT; 22682, 22684-90 MPH; 21983 WBF); and small orders (Serials 3158-70 GCT; 13934-45 HDT; 11543-54 CBT; 22691-702 MPH; 16256-67 SPB).

Some meetings of the container manufacturers were held. Mr. Hayes called one at the Royal York Hotel, Toronto, for April 14, 1949 (Serial 24295 CPO). He also called one for December 13, 1949 (Serials 23515 MPH; 3338 GCT; 24303 CPO; A25305 DCT).

The most comprehensive document issued by Mr. Hayes in this period was "SUMMARY OF COSTS AND CONVERSION TO READY RECKONER SYSTEM NOV. 15-1949", copies of which were found in the files of eight companies (Serials 23992-24046 CPO; 19149-203 HCL; 9189-9243 HBL; 15004-58 BAM; 16322-76 SPB; 11403-57 CBT; 13770-824 HDT; 3242-96 GCT; 5711-67 CST). This report proposed a series of increases in the various conversion tables in the Manual for containers whose area was over 14,000 square feet per thousand containing a new system of calculating printing costs, increased conversion costs for sheets, pads and liners, a revision of a former proposal on small order "costs", and other matters.

Mr. Hayes sent out a "SUPPLEMENT 'A' TO SUMMARY OF COSTS. NOV 15/49." which indicated that a rise in prices was contemplated (Serials 23942-70 CPO; 13828-56 HDT; 14975-15003 BAM; 16377-405 SPB; 11477-503 CBT; 3300-28 GCT; 5768-96 CST). The whole of the supplement was based on a 5 per cent mark-up, as used in the Ontario-Quebec region, and all the comparisons were between existing and proposed selling prices, not costs.

In April, 1950 Mr. Hayes circularized the industry on the subject of "SMALL ORDER ADDED COSTS" (Serials 11565-72 CBT) and submitted tables which became part of the September, 1950 issue of the Manual. In the period April to August 1950, a number of firms adopted various non-uniform systems of small quantity charges (Serials 46761, 46762, 46769 2HPH; A21718 3CPO; A34023 2CPS).



5. The General Price Increase in Eastern Canada,  
September, 1950

This section presents evidence concerning the increases in the prices of containerboard and shipping containers in late August and early September, 1950.

As far as Ontario and Eastern Canada were concerned, the first board mill to announce increased prices was Hinde & Dauch. That company made a price announcement by a letter of August 25, 1950 signed by Mr. W.H. Palm and sent to the Maritime and Ontario companies (Serials A18148-49 4HDT; 20265-66 MHP; 21997-98 WBF). The price announcement stated that the new prices would become effective on August 28, i.e., the following Monday. The amount of the price increase was approximately 4 per cent on all grades.

At 10.30 a.m. on August 25 Mr. Cockerill of Bathurst sent the following teletype to the President, Mr. Weldon:

"LYLE RICHARDSON WILL NOT BE COMING TO BATHURST. AS I AM STILL UNABLE TO GET THROUGH TO WILKINS TO GET PROMISED FINAL CONFIRMATION FOUR AND SIX THERE IS NOTHING SPECIAL TO SAY TO YOU. I AM HOWEVER THOROUGHLY CONFIDENT MATTERS WILL BE SETTLED SO THAT EFFECTIVE DATE WILL BE SEPTEMBER 1ST FOR BOARD PRICES."

(Serial 15069 BAM)

At 12.30 p.m. of the same day Mr. Cockerill teletyped again:

"PALM [Hinde & Dauch] IS ANNOUNCING EFFECTIVE AUGUST 28TH OR 29TH .016 \$2.94 .025 \$4.81 .009 \$1.57 AND BOX INCREASES AVERAGING AROUND 6 PERCENT PROBABLY BY SEPTEMBER 1ST. I PROPOSE AWAITING ACTUAL ANNOUNCEMENT AND THEN MAKING SIMILAR BOARD INCREASES EFFECTIVE SEPTEMBER 1ST. LITTLEJOHN [sic], RICHARDSON WILL MAKE ANNOUNCEMENTS ON BOXES SHORTLY AFTER."

SO FAR AS WINNIPEG IS CONCERNED ONLY THE .025 FROM BATHURST WILL BE EFFECTED UPWARD AS GODDEN'S MAKING NO CHANGES THAT AREA."

(Serial 15067 BAM)

This teletype indicates that Mr. Cockerill knew of Hinde & Dauch's intentions respecting box prices and board prices prior to its announcements and also of Brompton's intentions regarding board prices prior to Brompton's announcement.

On Monday, August 28, Mr. Cockerill again teletyped

his President as follows:

"HINDE AND DAUCH PRICES EFFECTIVE TODAY FOR EASTERN DELIVERY .016 \$2.94 .025 \$4.81 .009 \$1.57 AN INCREASE OF 4 PERCENT.

BROMPTON ARE ADVISING SIMILAR INCREASES TOMORROW. GAIRS DUCING [DURING] THIS WEEK.

I PROPOSE ADVISING OUR CUSTOMERS OF SIMILAR INCREASES EFFECTIVE SEPTEMBER 1ST AND WOULD LIKE YOUR PRIOR APPROVAL.

OUR PRICES FOR WINNIPEG DELIVERY SHOULD BE .016 \$3.27 .025 \$5.33 .009 \$1.75 BUT BROMPTON ARE NOT INCREASING THEIR PRICES WINNIPEG WHICH CURRENTLY ARE .016 \$3.11 .009 \$1.66.

. . .

LYLE [Richardson of Shipping Containers] WILL BE WITH ME THIS AFTERNOON AND WE SHALL BE TALKING TO HAROLD LITTLEJOHN [sic] ON EFFECTIVE DATE OF INCREASED BOX PRICES PROBABLY FIRST OF NEXT WEEK OR SEPTEMBER 5TH TO BE EXACT AS MONDAY 4TH IS LABOUR DAY."

(Serial A27251 BAN)

This teletype indicates that Cockerill knew Gair's intention on board prior to their announcement.

The sequence of announcements of increases in the price of board and in the prices of shipping containers is described as follows in the Statement of Evidence:

"245. BROMPTON duly made its announcement of prices identical with those of HINDE & DAUCH by letters dated August 28, 1950 (Serials A26187-8 LCO). The new prices were to be effective on Wednesday, August 30. BATHURST made its announcement of identical price increases effective September 1, by letter of August 29, 1950 (Serial 21999 WBF), and the same prices by GAIR were likewise effective September 1 (Serial 3587 IGCT).

246. Without waiting for announcements by any board mill other than HINDE & DAUCH, Mr. Hayes despatched complete copies of new manuals to his clients on Monday, August 28, 1950. The changes were comprehensive,



involving virtually all the sheets in the manual for material, conversion, closure and added costs. Their preparation required many thousands of calculations on the material sheets alone. These material sheets were all included in the shipment of August 28, and are identified in the covering memorandum by their numbers, e.g. for .009-.009-.009 there were six sheets identified by the number 653 which meant that the basis 'board cost' for one thousand square feet of the combined board was \$6.53. These numbers are to be found at the bottom of each manual page on material. Every page in the manual is identified in such a way by Mr. Hayes's circular memorandum of August 28, which was found in the files of GAIR (Serials 3545-8 GCT), STANDARD (Serials 16466-9 SPB), and CANADIAN WIREBOUND (Serials 11997-12000 CBT). The manual sheets were multilithed by a process which had to be done in a printing shop outside Mr. Hayes's establishment. Obviously all this could not have been done between Friday and Monday because of its volume. Mr. Hayes in 1948 estimated the work involved as follows:

' . . . I am also giving full instructions on how material sheets are built up in case the necessity required speeding this work up among four manufacturers, in which case it could be got out in a few days.

. . . '

(Serial 13700 HDT, cited above)

Accordingly, it must be concluded that Mr. Hayes had foreknowledge of the amount of the increases in board prices, if not of the exact date they would be instituted by HINDE & DAUCH.

247. All the companies in Eastern Canada proceeded to adopt the new manual and all continued to apply the standard 5 per cent mark-up. They staggered the effective dates of their price change between September 1 and 11, which included two week-ends and Labour Day. HINDE & DAUCH, HENDERSHOT and MARTIN-HEWITT made theirs effective Friday, September 1, and MARITIME announced a change on Saturday, September 2, and so were virtually simultaneous with WILSON, CHAMPLAIN, STANDARD, CANADIAN WIREBOUND, CORRUGATED PAPER BOX and GAIR, all of which made their prices effective on the Tuesday after Labour Day, September 5. Two ACME price sheets (Serials 100365 and 24654) show prices calculated on August 31, 1950, and September 1, 1950, through the 1950 manual with a mark-up of 5 per cent. KRAFT CONTAINERS established

September 6, and SHIPPING CONTAINERS and SUPERIOR September 7. HYGRADE changed on Monday, September 11, and DOMINION CORRUGATED the previous Saturday. The price announcements in evidence show that STANDARD announced on August 29 (Serials 14194 HDT, 16476 SPB), HINDE & DAUCH on August 30 (Serials 19009 HCL, 19379 KCH), CANADIAN WIREBOUND on August 31 (Serial A25310 DCT), WILSON on August 31 (Serial A32485 2WBF), HENDERSHOT on September 1 (Serial 48648 2HPH), SHIPPING CONTAINERS and KRAFT CONTAINERS on September 6 (Serials 18998 HCL and 9969 SBW), HYGRADE on September 7 (Serial A25319 DCT) and DOMINION CORRUGATED on September 9 (Serial 12004 CBT).

248. Although the companies in practice all adopted the new manual and continued to apply the 5 per cent mark-up, and hence instituted the same percentage price increase, their initial price announcements do not indicate this. HINDE & DAUCH described the amount of the increases as 5 to 10 per cent, HENDERSHOT as  $7\frac{1}{2}$  per cent on the average, SHIPPING CONTAINERS as 4 to 10 per cent, and its sister company KRAFT CONTAINERS as 3 to 10 per cent with a  $6\frac{1}{2}$  per cent average. In fact, the amount of the increases differed according to the order involved. On small orders it was graduated upwards to as much as 100 per cent. The 'average' increase which in Mr. Cockerill's teletype was referred to as six per cent, might perhaps be better related to the standard 65-pound box whose prices are shown in Schedule IV of Appendix II. This increased by over  $7\frac{1}{2}$  per cent, whether printed or plain. Actual prices, of course, had still to be refigured by the companies when these announcements were made, as several of them specifically pointed out."

(Statement of Evidence, Vol. II, pp. 373-74)

Mr. Cockerill of Bathurst was examined on matters arising out of some of the documents cited above. His testimony was in part as follows:

"Q. . . . Now do you say still that Mr. Godden and you did not discuss the change of price -- originally -- at the time when it was first altered?

A. Well obviously he advised me.

Q. Yes.

A. I still say that it was not as a result of any earlier discussion.

Q. Well --

- A. Or agreement.
- Q. If a man advises you of something, don't you regard that as a discussion of something you have had with him?
- A. Well if he advises me of something -- no, I don't think that is my interpretation of a discussion.
- Q. I see, so that whenever I have asked you about discussions it is quite possible that you may have been advised or may have advised other people in advance. Is that correct?
- A. Well now, I think you are getting somewhere.
- Q. Yes. Well now, I must be very careful how I ask these questions so I will now ask you whether Mr. Palm advised you before his price change in August of 1950 or rather I should [say] September 1950 -- did he advise you of the date and the amount of his price increase?
- A. Mr. Palm must have advised me of that price increase, otherwise I couldn't have told Mr. Weldon.
- Q. And then did you also have advice from Brompton about the same thing?
- A. I would say I must have had advice from Mr. Godden that he wasn't changing the price in Winnipeg.
- Q. Then on this occasion did you just follow Hinde and Dauch's lead on prices?
- A. It looks as if that was the meaning -- 'I propose awaiting actual announcement and making similar increase' -- so that it was following the Hinde and Dauch announcement.
- Q. Did you then advise anybody else about your intentions outside the company?
- A. Outside the company?
- . . .
- Q. . . . All I am asking you is, prior to making your announcement, did you advise anybody outside your company of your intention?

A. I just can't remember that.

Q. Well I was just going to digress for a moment --

A. I would say no but I just don't remember actually what happened after that."

(Evidence, pp. 5915-17)

Mr. Cockerill further admitted that he had been attempting to get confirmation from Mr. Wilkins of Hygrade about a 6 per cent increase on boxes (Evidence, p. 5927).

Mr. Cockerill was also examined on Serials 19380 KCH 5 and 19382 KCH 8 as follows: (19382 KCH 8 is a handwritten note from G T C to Harold Litteljohn)

"Q. Now I should like to show you 19380 and 19382. On the latter, is the handwriting yours? I take it it is?

A. Yes.

Q. It is dated August 30th, under the 'G.T.C.', and it says:

'Attached is draft of letter Shipping Containers propose sending their customers. Actual dates' --

that is underlined;

'-- not yet of course settled. I must say I like this short letter -- also I do not think necessary to include reference to small orders particularly if there is any likelihood of similarity of phrasing by all converters. Will no doubt be talking again to you on telephone.'

What do you mean by that: '...particularly if there is any likelihood of similarity of phrasing by all converters'?

A. Well, I think it was probably tied in with a kind of pride of authorship -- that we would just as soon make our statements so that they should be clearly our statements. I can't really throw my mind back to the particular reasoning there.



- Q. Well, Mr. Cockerill, in the revision of September 1950, for the first time, everybody in the industry adopted, virtually simultaneously, a new system of charging for small orders when Mr. Hayes put out a sheet for that purpose. I suggest to you that is what you were talking about.
- A. Well, yes, I would think that. Hayes had put together sheets on small orders. There is some reference there.
- Q. And I suggest to you that you did not want the customers receiving these various announcements to see complete uniformity of action. Is that what you had in mind?
- A. I should say, yes.
- Q. Now I am showing you 19380.
- A. Yes.
- Q. That is a draft letter [dated September 5, 1950] from Shipping Containers to 'Messrs. Smith Brothers, of St. Catherine Street, Montreal' -- I presume that is apocryphal. It says:

'In order to ensure the same quality and service which you have been receiving in the past, present conditions now make it imperative that we increase the prices of corrugated products effective September 6th, 1950.

Since our last price advance in October, 1948, all new materials, without exception, have shown an upward trend. Freight and cartage rates have also gone up, and, owing to the higher cost of living, we have raised wages in our plant on two occasions. We are now advised of an increase in the cost of linerboard and corrugating materials, and therefore, can no longer delay increasing our prices. This has been kept to a minimum, and should average from 4% to 7%, depending upon the size and type of carton.

We thank you for the valued business which you have placed with us in the past



and assure you that we will continue to serve you to the best of our ability.'

There is 4 per cent and 7 per cent and no reference to small orders. And now I show you 18998 HCL, which is an announcement of price increase by Shipping Containers. It is dated September 6th, 1950, in the Hygrade files. The effective date there is September 7 and it says 'from 4% to 10%' as opposed to 4% to 7% in the other letter. It mentions small orders. Next I show you Serial 9969, which is Kraft Containers' price announcement, dated September 6, 1950 SBW. This is a longer letter. It makes prices effective September 6 instead of 7 and it increases prices approximately  $6\frac{1}{2}$  per cent. Now is it not a fact that both these companies were pricing from exactly the same manual, in exactly the same manner, so that their prices would rise by exactly the same amount?

- A. Yes. This letter says: 'These percentages we believe will vary from 3 to 10%.' And Shipping Containers should range from 4 to 10. So that there is quite a similarity there.
- Q. The draft says from 4 to 7, and the fact is that you were all using the same manual. Isn't that so?
- A. Shipping Containers and Kraft Containers were, yes.
- Q. And when you wrote this draft, and the draft letter from Shipping Containers was written, the manual had already been promulgated?
- A. The sheets?
- Q. Yes, the manual sheets.
- A. I presume they must have been.
- Q. What was the object of all this apparent difference, then?
- A. No object at all, Mr. Gascoigne. It is one of those things. We have now got on the basis that when letters go out they go out on Bathurst paper and there is no question about it. They operated separately at the time and got into different practices, but we have got into one now which is Bathurst.

Q. I suggest to you that at that time a deliberate effort was being made to stagger prices and to make as many appearances as possible of being different in order to try to fool the customers?

A. No, you are quite wrong, because we have never had a different policy as between Shipping Containers and Kraft Containers. We certainly did not try to fool the public, as you say."

(Evidence, pp. 6786-90)

Mr. R. C. Godden formerly of Brompton was examined on matters related to the foregoing documents. Although much of his testimony is inconclusive, three points emerge. The first is that he discussed prices with competing board manufacturers and the second that on occasions he had informal discussions with Bathurst and vice versa at which the date and the amount of a price increase was communicated. The third point is that it was his company's practice to notify the company's Eastern customers of price changes by telephone or by telegram prior to the sending out of letters of announcement and that all were so telephoned or telegraphed at about the same time. These points are illustrated by the following excerpts from Mr. Godden's testimony:

"Q. I would like to ask you whether since the time you became sales manager have you ever represented your company in discussions with competing board manufacturers respecting prices?

A. Are you now specifically referring to shipping case materials --

Q. That is right.

A. As you know, I was representing the company on Dominion Paperboard.

Q. That is right.

A. I would say the answer was yes -- in an attempt to establish any markup or find out what was happening, it was almost impossible to avoid talking to the major producers who are our customers.

. . .

Q. Prior to your announcing a price increase, have you ever informed anyone outside your company of your intention to increase?

A. Formally -- no.

. . .

Q. Well let me ask you directly did you or did you not discuss prices with Bathurst before instituting any price change?

. . .

THE WITNESS: I can't remember any formal discussion prior to a price increase with Bathurst Company.

Q. And what about an informal discussion.

A. It is pretty hard not to discuss prices and sales methods and so on when you meet regularly -- I beg your pardon not regularly but meet the same people in the same restaurants and so on and that is the topic of conversation that is carried on I guess, generally, throughout the entire industry but being a little more specific I don't recall ever having gone to a representative of the Bathurst Company and done any more than discuss prices in a general fashion -- I don't know if that answers your question or not. I assure you I am not trying to be evasive -- I just want to be careful for it is very hard for me to say yes or no to your question.

Q. Well that is all right. You answer the questions the way you feel you should and I am going to say this -- can you remember any occasion on which in these informal discussions you mentioned to a representative of Bathurst or vice versa the date and the amount of a price increase about to be put into effect?

A. Yes I think I called them on the last time we put our prices out and said that on such and such a date we were increasing our prices and that a price list was in the process of being made and would be going forward.

Q. And did you tell them the increase that you were going to make?

A. Yes I did.

Q. And have you had the same information from Bathurst representatives?

A. Yes. They have a practice -- and certainly in our case anyway -- of sending out wires prior to their

official announcements and we have received telegrams and I presume all their suppliers received them or at least their customers and suppliers have had the same.

Q. Before they ever sent out any wires have you had that information informally or formally any way whatsoever from representatives of Bathurst?

A. I can't remember that.

Q. What about Hinde & Dauch?

A. Hinde & Dauch adopt very much the same procedure as ourselves.

Q. Sending out wires you mean?

A. No. Usually of informing us ahead of time and saying that on such and such a date their price was going up.

Q. And who did you get that information from at Hinde & Dauch?

A. In some instances Mr. Palm.

. . .

REPORTER [repeating question]: 'Prior to the announcement of price increases in the industry have you ever attended meetings with the corrugated box makers informing them that there would be such an increase at some time in the future?'

A. No.

Q. Is it true then that you never indicated to anybody outside of the other boardmakers the date and amount of price increases on board in advance of price announcements?

A. Anybody is a pretty all-embracing word but I think that could be answered no.

Q. I don't want to be all-embracing -- let us bring my question down now to Mr. Hayes -- have you ever told Mr. Hayes in advance of price announcements what was going to happen?

. . .

A. I am not sure of my answer to this question -- I may have talked to Fred Hayes on many occasions -- I have when he has assisted me and helped me and I have acquired information from him but I just want to clear that point -- we have no active association with the boxmakers group as you referred to - with Mr. Hayes, but he has statistics which are of great value to us.

. . .

Q. To be more specific on this question of information on price changes given to Mr. Hayes, have you ever told Mr. Hayes of the effective date and the amounts of changes in prices about to take place, in advance of price announcements?

A. I can't recall ever having done so.

Q. Have you made it a practice to notify your eastern customers of your price changes simultaneously, or relatively so?

A. Eastern customers -- yes -- as close to the same date as we can.

Q. Has it been the practice to actually send them telegrams on the same day?

A. Telegrams or a telephone call -- we get out the price lists as quickly as we can and send them to them.

Q. On those occasions on which you have sent out telegrams would they be the first intimation to your customers that there is going to be an increase?

A. Unless there was a phone call on the very day.

Q. And would you say these telephone calls would also take place on the same day?

A. I would say so.

Q. They would always take place on the same day?

A. Yes, I would say so -- I mean, being under oath, I couldn't guarantee if it was done one day before or something like that -- but they all happened about the same time or as close to the same time as possible.



Q. Do you think it may have been that there were occasions when it was done the day before?

A. That could be.

Q. Can you remember any occasions like that?

A. No. I cannot -- no I can't.

Q. Were there any occasions when it was more than a day before?

A. I couldn't remember now."

(Evidence, pp. 5953-67)

Mr. Godden went on to say that the persons at the various board firms with whom he discussed price matters included Messrs. C.T. Cockerill, I. Smith and R.L. Weldon and Mr. Christian of Bathurst, Messrs. Palm and Hunt of Hinde & Dauch, Mr. Cowan or Mr. Ross of Gair, and Mr. Pim of Pacific Mills. Again, Mr. Godden testified as follows:

"Q. From the end of the war until the time that Bathurst took over Canadian Wirebound Boxes was it usual for you to tell Bathurst before your price announcement of your intention to change prices and the date and the amount involved?

#### OFF THE RECORD

A. I would say yes, that, speaking generally, I would call the Bathurst Company up and say that we were putting out a price change.

Q. And if Bathurst led off would they call you, as a matter of practice?

A. They have done so.

Q. During the period that I have mentioned?

A. Yes."

(Evidence, p. 5987)

Again Mr. Godden testified as follows:

"Q. Mr. Rankin tells me that before lunch I had not quite finished with serial A27251 BAN, 15067 and 15069 and

I would just like to recapitulate what is in this document - on the 25th of August Mr. Cockerill was able to say what you were going to do with respect to prices to the Winnipeg area and when Hinde and Dauch made their announcement on the 28th, and before you or Gair had made any announcement, he was able to say when you were going to announce and that the increase would be similar and that Gair would be doing the same thing during the week and I would like to ask you --

MR. MACKAY: I question whether your submission is right.

MR. GASCOIGNE: In what respect?

MR. MACKAY: I didn't see anything, that I remember, in this document that said we were going to increase prices.

MR. GASCOIGNE: Oh yes -- in A27251 it says Brompton are advising similar increase tomorrow - Gair during the week.

MR. MACKAY: I beg your pardon.

- Q. So that we have Bathurst with knowledge of everybody's intention days before any announcements had been made -- now as a result of these consultations we were talking about earlier, was your company in just the same position as Bathurst?
- A. Do you mind explaining that?
- Q. Well did you have this foreknowledge of everybody's intentions days in advance of the announcements, or at any rate before the announcements?
- A. Yes -- yes. Well I would judge so, yes.
- Q. And has that been usual?
- A. As I said, usually there has been an announcement to the effect that we were going to put up our prices on such and such a date."

(Evidence, pp. 6017-19)

Mr. R.L. Weldon, President of Bathurst, testified as follows:

"A. Well, there do occur from time to time, when you meet people, discussions with regard to market conditions and costs and their resultant effect on prices. Such discussions might occur as one was walking out of this building, the Sun Life Building, or over a drink.

Q. Or over the telephone?

A. Some, I should say, over the telephone; one might explore a whole field. They are not systematic; they are not necessarily planned ahead of time; and they might occur before a price change took place, long before or perhaps closer to the event. Those are the general types of discussion which did take place from time to time. They might cover a dozen different phases of the picture.

Q. And when it comes to the time to take action, has it happened that you have held off action until all those activities, all those plans of the other people have reached the stage where you have in effect virtually simultaneous price announcements?

A. I would say the decision in that sort of thing is influenced by your cumulative knowledge respecting market conditions. If you are going to increase price at any given time it is a very unwise thing to do unless you believe it is going to be followed by your competitors."

(Evidence, pp. 6854-55)

Mr. Wilkins of Hygrade, examined on Mr. Cockerill's teletype, Serial 15069 BAM testified as follows:

"Q. . . . Now do you remember discussions with Cockerill in advance of board price changes about what will happen to box prices, of this kind?

A. Yes sir.

Q. And did this happen at other times as well?

A. I would say yes."

(Evidence, pp. 5511-12)

The foregoing evidence shows that the containerboard mill knew of each other's proposed increases in the prices of board before the individual mills had sent letters announcing these price increases to their respective customers. The evidence shows that the integrated producers knew of each other's intended increases in the prices of shipping containers before those increases were announced. The documentary evidence indicates considerable consultation between the firms.

The evidence also indicates that Mr. Hayes knew of the proposed increases in the prices of board some time before they actually occurred, for he despatched complete new volumes of the Ready Reckoner manual after Hinde & Dauch only had announced its price increases on board and before the other mills had done so. Mr. Hayes must, therefore, have assumed that all the rest of the board producers would follow Hinde & Dauch's lead and would quote identical prices.

#### 6. Price Increases in Western Canada, 1950

The price changes in Manitoba and Saskatchewan in July, 1950 were preceded by consultation between Mr. Hayes and representatives of the Western firms.

A memorandum of April, 1950 from Mr. D.A. Hindle of Martin Paper to his Calgary Manager, Mr. G.A. Holland, concluded with the following:

" . . .

Fred Hayes and Mr. Whaely [Whealy] are planning to be here the 24th and 25th to discuss the new costing methods. At the same time I suggested that Mr. Hayes would be well advised after completing his business in Winnipeg to go on to Calgary and which he is prepared to do, possibly arriving there around the 27th. . . ."

(Serials 25241-42 MPA)

Mr. Hayes himself wrote on April 10, 1950 to Mr. W.R. Hilton of Hilton as follows:

"Thanks for your letter of April 6th, informing me that you will be away from the 16th to the 20th. In view of this I have revised my plans and will leave Toronto by air on the afternoon of Sunday, April 23rd, and will thus be available in Winnipeg on the 24th, 25th and 26th. I believe

that Mr. Whealy is going to come out with me, and he will no doubt confirm this to you direct.

. . ."

(Serial 6627 CST)

Similarly he wrote to Mr. Hindle of Martin Paper indicating he would be in Winnipeg and available for consultation on the 24, 25 and 26 April (Serial 6628 CST). After his visit he wrote a letter to Mr. J.R. Glynn of Martin Paper dated May 3, 1950 in which he made reference to the meeting having occurred.

" . . .

Now that I have the new Manuals finished, I want to take a minute off and thank you for all the courtesies extended to me during my recent trip to Winnipeg. I always look forward with pleasure to a visit with you and the rest of the Martin organization."

(Serial 6638 CST)

On May 3, 1950 Mr. Hayes sent new manuals to Winnipeg with letter which indicates that this territory was not awaiting increases in the price of board before changing container prices. Mr. Hayes's letter to Mr. W.R. Hilton was as follows:

"We are forwarding today by air express five copies covering new conversion costs as requested by you last week. They are a complete costing book with the exception of the material sheets, which are omitted from these copies. To put them in operation, merely add the material sheets where designated, and place in your binder after removing all sheets in the binder at present.

. . ."

(Serial 9144 HBL)

The price changes arising out of the adoption of the new manual were made almost simultaneously by Martin Paper and Hilton effective July 24 and 25 respectively (Serials A15087 2MPP; A11253 2HBL, 9255 HBL).

With regard to this price increase the Statement of Evidence, comments as follows:



"260. . . . On the standard box . . . this price increase amounted to some 1 1/4 to 1 1/2 per cent. This was the sole occasion during the CONTAINER STATISTICS period when box prices were increased without a prior increase in board prices. This supports the inference that the principle of no change in Winnipeg board prices was known in advance of the Eastern increase. The basis of the price change was the adoption of the revised manual sent forward by Mr. Hayes on May 3, including the initial adoption of the small order upcharge in this territory. The mark-up of 10 per cent continued unchanged.

(Statement of Evidence, Vol. II, p. 393)

The shipping container manufacturers in Winnipeg had for some time been supplied with board by Brompton and Bathurst only. In April, 1950 all of Bathurst's tonnage of board for Winnipeg, with the exception of .025 liner, was switched from Bathurst to Dryden. Bathurst however, remained a supplier of .025 liner. This liner was priced by Bathurst on the same basis as in the past and consequently was increased by 4 per cent in September, 1950 (Serials A27123-24 BAN). On September 19, 1950 Mr. W.R. Hilton wrote to Mr. Whealy of Corrugated Paper Box. His letter included this:

" . . .

Regarding the price on .025, apparently Fred [Hayes] is coming west sometime in the next two weeks, and has asked us to lay off this until that time. It is quite possible that there will be something done about Alberta prices. Do you know anything about this at all?

. . ."

(Serials 9259-61 HBL)

On September 21 Mr. Hayes wrote to Mr. Hilton:

"I was glad to hear from Fred Whealy yesterday that you will be in Winnipeg at least part of the time that I am there. I will be arriving on October 8th, and leaving on October 12th.

. . ."

(Serial 6641 CST)

This trip to Winnipeg was tied in with a trip to Calgary and Vancouver which was made (Serials 6643 CST; 9784 CBV; 16483 SPB). The further sequence of events is described by the Statement of Evidence, as follows:

"262. The Winnipeg companies later received from Mr. Hayes new and higher material sheets for the manual covering only 275- and 375-pound test boxes, single wall, the types made from 25-point liner. These became effective simultaneously on December 1, 1950, by price announcements issued by HILTON on December 1 (Serial 9265 HBL) and by MARTIN PAPER on November 30 (Serial A15086 2MPP)."

(Statement of Evidence, Vol. II, p. 393)

7. Alberta, December, 1950

As indicated in the previous section, Brompton's prices for board to Western Canada had not changed in September, 1950 and neither had those of Pacific Mills. There was no immediate change in prices of shipping containers in either British Columbia or Alberta.

On November 10, 1950 Mr. D.A. Hindle of Martin Paper sent the following telegram to Mr. Hayes:

"HAVE JUST RECEIVED ADVICE FROM PACIFIC THAT STARTING DECEMBER FIRST NINE POINT CHANGES FROM 1.72 TO 1.78 AND SIXTEEN POINT FROM 3.23 TO 3.34 STOP ALSO ADVISING THAT THEY ARE MAKING UP NEW BOX PRICES TO COVER THIS INCREASE STOP WONDERING IF BROMPTON WILL MAKE CORRESPONDING CHANGE THOUGH HAVE NO WORD FROM THEM IN THIS RESPECT TO DATE"

(Serial 8499 MPP)

On November 14, 1950 Mr. H.C. Pim of Pacific Mills wrote as follows to Mr. D.A. Hindle:

"In answer to your wire of the 13th, I would say that effective December 1st, we are advancing our prices to Canadian Boxes Limited. The .009 corrugating will be increased from \$1.51 to \$1.57, and .016 liner will be increased from \$2.83 to \$2.94 per M. square feet.

Last week when our Mr. Scott was in Winnipeg, I talked with him and asked him to let you know in advance that we proposed to increase our Calgary prices on the above materials, effective December 1st, i.e., .009 corrugating from \$1.72 to \$1.78 and .016 liner from \$3.23 to \$3.34 per M. square feet.

For your information, we also plan to have Canadian Boxes Limited increase its prices for boxes in Alberta area on December 1st, to reflect the above increase in material cost, plus certain other increases for labor, etc."

(Serial A26201 LCO)

Mr. Hindle sent a copy of Mr. Pim's letter to Mr. R.C. Godden of Brompton on November 15 with a letter which included the following:

". . .

If, and when, Pacific raise their Board and Box prices in B.C. and Alberta, then our present price structure is at a disadvantage by reason of the fact that Alberta consumers could buy cheaper from Winnipeg.

Could you figure some way of supplying all of Calgary's requirements and keeping in mind that Winnipeg and Calgary Board prices should be based on Red Rock mill net. In this way, you would be assured of all business for Manitoba, Saskatchewan and Alberta for the future. We sincerely trust Roger, that you will give this whole matter your serious attention.

We will advise you just as soon as Pacific have definitely established their new prices.

. . .

[Handwritten P.S.]: Roger: Since writing this letter this a.m. have rec'd enclosed letter from Pim".

(Serial A26200 LCO)

There is no answer from Mr. Godden in the documentary evidence.

On November 17, 1950 Mr. Hindle wrote to F.C. Hayes informing the latter of Pacific Mills' intended advances in prices of board and also of Pacific Mills' intention to effect a corresponding increase in the price of boxes in Alberta. An attached note set forth the current board prices for the Calgary plant of Martin Paper from Pacific Mills and Brompton, the proposed new prices of Pacific Mills for December 1 and the proposed board prices to Canadian Boxes (Serials 8500-01 MPP).

The sequence of events in the ensuing price increase are described as follows by the Statement of Evidence:

"267. The increased prices were brought into effect simultaneously, on December 1, 1950, by CANADIAN BOXES (Serial 91363 2CBV), MARTIN PAPER (Serial 25285 MPA) and HILTON (Serial A11255 2HBL). They involved new material sheets based upon the PACIFIC MILLS board prices for .009 and .016 board (Serial A35320 BNG - Part Exhibit 50; Mr. Hayes's 'Board Costs' for Calgary, December 1, 1950, Serial 25246 MPA; Mr. Hayes's 'Summary of Pages in Alberta Manual', Serials 25360-2 MPA; Alberta Manual, Serials 7760-7 and 7784 MPP, 25368-611 MPA). These documents also show that a higher basis for boxes using 25-point liner made in Eastern Canada was introduced, as well as revised manual pages for conversion operations and a new basis for small order upcharges which differed both from those previously in effect in Alberta and from those adopted in July in the Manitoba-Saskatchewan area. The mark-up of 15 per cent remained unchanged. In total the effect was an increase of approximately 10 per cent when small order upcharges were not involved. The new manual sheets for small orders were adopted at this time."

(Statement of Evidence, Vol. II, pp. 395-96)

8. British Columbia, December, 1950

With regard to the price increase of December, 1950 in British Columbia, the Statement of Evidence says:

"268. The increased prices for board sold by PACIFIC MILLS to its subsidiary, CANADIAN BOXES, were effective on December 1, 1950 (Serial A35320 BNG - Part Exhibit 50), the same date as the box price increases in Alberta, and were accompanied by an increase in prices of shipping containers sold in British Columbia by CANADIAN BOXES. This increase was brought out by the adoption of the same CONTAINER STATISTICS manual as had been taken into effect in the East the previous September, except that the small order upcharges for B.C. were on a different, and generally higher, basis. The mark-up applied to the manual in B.C. was 15 per cent, as against 5 per cent in Ontario and Quebec.

269. In the files of MARTIN PAPER, Winnipeg, attached to a series of obsolete Container Materials manual pages, was a sheet in the typical format of those issued by CONTAINER STATISTICS. It was dated December 1, 1950, and reads as follows:

'MANUAL.

VANCOUVER.

DEC. 1 - 1950.

MATERIAL	-	Material sheets follow this page (Same as Ontario - Quebec).
CONVERSION	-	All conversion tables are identical with Calgary Manual.
MARKUP	-	15% to cover profit.'

(Serial 8197 MPP)

The figures '15%' were written in ink.

270. As has been indicated above, Mr. Hayes made a Western trip early in October which included a visit to Vancouver (Serials 9784 CBV; 16483 SPB). Before going there he forwarded the suggested manual with the following comment:

' . . .

You have undoubtedly received by now the 12 complete books of the new Ontario material and conversion, and I am forwarding by parcel post today sufficient of the B. Flute partition allowance sheets to make this book 100%. I appreciate, of course, that possibly none of the book will be used, or possibly just part of it, but that is a matter that we can discuss in detail when I arrive.

For your information I am enclosing a copy of the beer costs for Ontario and Quebec.'

(Serial 6642 CST)"

(Statement of Evidence, Vol. II, p. 396)

Mr. R.A. O'Dowda, Sales Manager of Hilton, gave the following evidence at large without reference to documents:

"Q. Have you had discussions with Martin Paper Products at the time when price changes have been instituted by your company or just before that time as to the effective date of price changes?

A. Yes.



- Q. Has this been done on every occasion on which there has been a basic price change?
- A. No.
- Q. Since you have been sales manager?
- A. No.
- Q. Do you remember when it happened?
- A. I do not.
- Q. Did it happen on more than one occasion?
- A. It is possible that it did.
- Q. Well, everything is possible. What is your recollection about it?
- A. It likely happened more than once.
- Q. And who in Martin's did you discuss it with?
- A. Mr. McCullough.
- Q. Anybody else?
- A. I would say no."

(Evidence, pp. 2798-99)

9. Price Changes through Changes in Mark-ups,  
1950-52

On this subject the Statement of Evidence has the following to say:

"277. As the basis for calculating prices, the manual as revised in 1950 remained in effect until the autumn of 1953 in all zones except British Columbia and Alberta, where the change was made in May 1954. During the early part of this period, when there was a steady upward pressure on prices associated with the Korean War boom, price changes were brought about by adjusting the percentage of mark-ups over the manual. This happened for the Eastern price zones on two successive occasions within ten months of the 1950 revision, at the end of 1950 and in the middle of 1951. In

the Western price zones it occurred at the end of March 1951 and again at the end of June 1951.

. . .

279. The evidence shows that the two upward revisions in mark-up over the CONTAINER STATISTICS manuals which were made in 1950-1 were uniform and relatively simultaneous in each price zone, that they were initiated as the result of uniform and relatively simultaneous increases in the prices of board, and that Mr. Hayes facilitated their adoption by his clients. In result the period was characterized by the continuation of uniform, non-competitive prices in all zones, which held firm at the peak levels (except for British Columbia and Alberta) in the face of a weaker market in 1952. . . ."

(Statement of Evidence, Vol. II, p. 402)

10. Adoption of the First Surcharge

Ontario and East, December, 1950

The first documentary evidence of an impending price change for containerboard is in a letter from the President of Wilson to an export customer of December 15, 1950, from which the following is extracted:

". . .

. . . It is too bad shipments can not be made from here while the steamers are now running direct to Lisbon without any inland railway charge, and we feel that all buyers would be using good judgment to secure all the cartons they can get at reasonable prices, and good quality because there is going to be another advance in price and supply would be very limited. If you can secure any attractive orders for us we will be glad to hear from you further."

(Serial 22011 WBF)

On December 28, 1950 Wilson sent the following telegram to another customer before any box or board producer had made a formal announcement of a price change (The first announcement was on December 29):

"PAPER MILLS ADVANCING PRICE LINER IMMEDIATELY CAUSING 5% ADVANCE IN ALL PRICES OF SHEETS AND CARTONS"

(Serial 22013 WBF)

Wilson reiterated this statement in a letter to the same customer on December 29 (Serial 22014 WBF). To still a third export customer, also on December 28, Mr. Roderick wrote in part:

"We thank you for your cable today offering order for 10,000 cartons at \$3.36. This price would not interest us and it so happens that all paper mills in Canada advised us today that liner board has advanced in price, and we are therefore forced to advance the price on cork boxes accordingly. The new price will be \$3.65 CIF less usually [sic] commission.

. . .

We regret very much that this increasing in cost in price [sic] has gone into effect, but we have no control [over] it. It is the same price throughout Canada.

. . ."

(Serial 22012 WBF)

A handwritten memorandum made by Mr. H.S. Smith, the Sales Manager of Bathurst, and dated December 28 (hence ahead of any of the public announcements of increases in prices of board) was as follows:

"Subj. -- Kraft Prices  
Effective Sat Dec. 30 Kraft Liner and Corrugating prices are as follows: -

Eastern Canada

.016 Kraft Liner	\$3.09
.025 " "	\$5.05
.009 Corrug. Material	\$1.65

All per M sq. ft., FOB cars Bathurst, C.L. Frt. allowed.

Winnipeg

.016 Kraft Liner	<del>\$3.43</del>	
.025 " "	<del>\$5.60</del>	5.57
.009 Corrug. Material	<del>\$1.84</del>	

All per M sq. ft. FOB cars Bathurst, C. L. Frt. allowed to Winnipeg

-----

Given L.A.P. Dec. 28 - 12 <sup>30</sup> Telephone "

(Serial 15082 BAM)

Notice that at the foot of the memorandum it is indicated that the information was given to L.A.P., i.e., L.A. Palmer, Manager of Bathurst, Mill Order Department, on December 28. The prices quoted identify the document as belonging to the year 1950. The Winnipeg prices for .016 and .009 liner were a formality because Brompton was supplying this territory at 5 per cent lower, but the .025 liner price was a real price because Brompton did not supply this grade to Winnipeg.

The sequence of events in this price increase is described by the Statement of Evidence as follows:

"284. The initial formal price announcement of a change in the price of board for Eastern Canada was again made by a letter from HINDE & DAUCH written on Friday, December 29, 1950. The prices so announced were the same as those set forth in Mr. Smith's memorandum, and since HINDE & DAUCH did a restricted volume of business they were quoted as delivered prices to destinations in the provinces of Quebec and Ontario. An unsigned, unaddressed copy of this price announcement was found in the files of ST. LAWRENCE (Serial A26206 LCO) and signed and addressed copies in the files of bona fide customers and also WILSON, to whom by its terms it would be inapplicable (Serials 9983 SBW, 20267 MHP, 22016 WBF). The effective date of the new prices was December 30, the Saturday before New Year's Day.

285. BATHURST made its formal announcement in telegrams dated December 30, 1950, including one to its own Montreal-based subsidiary, SHIPPING CONTAINERS. The new prices referred to in Mr. Smith's memorandum were effective immediately (Serials 24316 CPO, 21146 SPL). That the telegraphed advice to SHIPPING CONTAINERS was a formality is demonstrated by the fact that that company had already prepared price announcements of an increase in shipping containers prices dated December 29, the day before BATHURST's wire was sent. BROMPTON also sent wires to all its customers on December 30, announcing a 5 per cent increase effective immediately, price list to follow (Serial A26209 LCO). When it did follow, the prices were the same as its competitor's (Serial 20458 LCM). GAIR's announcement of the same prices was sent on January 2, 1951, effective immediately, which amounted to a simultaneous announcement with all the other mills in view of the holiday week-end (Serials 24318 CPO, 3634 1GCT).

286. To MARTIN PAPER, BROMPTON announced by telegram of December 30, 1950 (Serial A26207 LCO), only one change in price, namely \$5.57 for .025 liner which, as a matter of fact, it did not supply to MARTIN PAPER, Winnipeg. Thus, in two stages, by making no changes in Winnipeg prices for .016 and .009 grades in August 1950 and again in December 1950, the Winnipeg delivered prices of BROMPTON were equalized with Eastern delivered prices and one long-term complaint of MARTIN PAPER was satisfied. DRYDEN's prices, established in February 1950 at the prevailing prices, also remained unchanged in August and December and hence were the same as those of BROMPTON (Return of Information by DRYDEN, . . .)"

(Statement of Evidence, Vol. II, p. 405)

Mr. W.H. Palm of Hinde & Dauch, was questioned about these matters. His testimony was in part as follows:

- "Q. This [These] documents indicates [indicate] that your company led off its [this] price increase on December 29, 1950.
- A. I don't remember.
- Q. Which was a Friday -- do you remember any discussion with any of the other board producers about this price increase?
- A. I don't recall any discussion with any board producers about this price increase.
- Q. Was it your policy to have any discussions with any one of the other board mills when you were leading off a price advance?
- A. Well let me say this -- I will refer to what I said to you earlier this morning -- that there were occasions when a mill would phone us and indicate that they were going to raise their price at such and such a date.
- Q. Yes, but now I am putting it the other way -- when you led a price advance did you phone any other mill and tell them?
- A. It is possible that we have done so, yes.
- Q. Well I guess everything is possible but did you do it?



- A. I don't recall offhand any specific instance but that could have happened. I mean I don't recall all these intimate little details about every time there was any change in prices.
- Q. But you do recall your board policy don't you?
- A. I do.
- Q. And is it your policy on these occasions when you lead off in your company, in respect of a price change, to phone the other mills or some of them, or one of them?
- A. We may have phoned one.
- Q. Pardon?
- A. We may have phoned one.
- Q. I am asking if it is your policy -- could you answer me on that basis please?
- A. We have phoned a mill and said we planned to make a change on such and such a date -- we have done that.
- Q. And when did that happen?
- A. Oh well, I can't recall any specific date.
- Q. What was your reason for phoning?
- A. Well, to let them know that that was our intention.
- Q. Why did you feel it was desirable to phone them and to tell them?
- A. They might choose to follow it if they wished."

(Evidence, pp. 6543-45)

Mr. Cockerill of Bathurst, examined with respect to these matters, testified in part as follows. His evidence shows that it was possible that Wilson was notified by telephone before the announcement of price changes by either telephone or letter:

- "Q. Can you tell me whether you actually did tell Mr. Roderick of Wilson Boxes on the 28th December?
- A. I cannot tell you, but it is very improbable because I never saw much of him to tell him things.

- Q. Let us get down to the policy of Bathurst's Sales Department which you were directing. Was it the custom to notify Mr. Roderick in advance of any formal announcement?
- A. As far as we are concerned, I would say the first advice Mr. Roderick got was a telegram he received from us -- that is to say, as regards advice. I am afraid, however, I cannot remember every specific change. It is possible he might have been telephoned to at the time the telegram went, and it might have come to him the night before. That might have been.
- Q. Now would it fit in with your method of operation for the sales manager to do a thing like that without approval? In other words, was it in his power to do such a thing as that?
- A. When he was advised as to the effective date of a price change he would be told, 'You can go ahead and advise the market and customers', and that is what he would do.
- Q. As of when was he permitted to do this?
- A. When he was told, whether the day before or two days before. He would be told when to make the price effective and he would go ahead and make it effective. It might have been the day before.
- Q. What you are saying in effect, then, is that the fact that any one company leads off with a price announcement does not necessarily mean that this is the first time this information reaches the market? Do you agree with me on that?
- A. I think you are right, yes. It is not necessarily the first time.
- Q. Would you say it usually was the first time or usually not the first time?
- A. When there is a price change in the air, the air is full of rumours for quite a long time, and I would say that in most cases price changes, and the announcement of price changes, do not come as a complete surprise to the recipient.
- Q. How do these rumours originate, do you know?

A. No.

Q. Is it not a fact that they originate from discussions that take place among the board mills?

A. No. I wish I knew.

Q. Now at the time of a price change is it not a fact that all round the four board mills there are telephone calls back and forth before any announcements are made as to the date and the amount of the price change?

A. I cannot tell you that. All I know is with reference to our own performance.

Q. What about your own performance? Do you send and receive calls from the four mills at the time of these price changes?

A. As soon as they have made up their minds they will advise us.

Q. And their minds may be made up three or four days in advance, as yours was in this case?

A. I should think it might well be."

(Evidence, pp. 6689-91)

Mr. R.C. Godden of Brompton gave evidence which contained the following:

"Q. . . . Have you ever notified Canadian Wirebound Boxes in advance of a price announcement that one is coming up on Saturday and they had better have somebody there to receive it?

A. Not to my knowledge -- I think I am in order in saying that in the old days when Canadian Wirebound were our customers, speaking generally, I did discuss the matter of our proposed prices to the extent of, shall we say, a day or two ahead of the time with Mr. Dunn -- I mean I had to collect information, as I told you, and he was the one source -- that we had been very close to, for many years, . . ."

(Evidence, p. 5984)

The ensuing sequence of events is described as follows in the Statement of Evidence:

"291. Announcements dated December 29, 1950, of a 5 per cent increase in shipping containers were found in the files of HYGRADE (Serial 18990 HCL), HENDERSHOT (Serial 48650 ZHPH), SHIPPING CONTAINERS (Serial 21144 SPL) and CANADIAN WIREBOUND (Serial 12038 CBT). In the case of SHIPPING CONTAINERS there is another identical letter dated December 30, 1950 (Serial 21148 SPL) and both are form letters not addressed to any particular customer. An actual announcement of SHIPPING CONTAINERS from the files of HYGRADE is dated December 30 (Serial 18989 HCL). All three SHIPPING CONTAINERS announcements are identical in their language and state that the company has been advised of a change in board prices 'to take place at once' and that 'it is necessary for us to increase our prices approximately 5%, effective immediately'. HYGRADE's announcement says: 'today Kraft Corrugating Material and Kraft Liner Board increased', and HYGRADE obtained its supplies from BATHURST. CANADIAN WIREBOUND, whose supplier was BROMPTON, said in its telegram to Dominion Glass Co. Ltd.: 'Board prices were increased today due to heavy increased costs pulp and pulpwood' (Serial 12038 CBT). Even CANADIAN WIREBOUND's form letter of December 30 also states: 'As of December 29, 1950 our suppliers of linerboard and corrugating medium have increased the prices of these commodities . . .' (Serial A25326 DCT). As established elsewhere in the Statement, the following companies made their shipping container price increase effective December 29: WILSON, CHAMPLAIN, HENDERSHOT, STANDARD, and MARTIN-HEWITT. The other companies in the Ontario-Quebec-Maritimes area made their price change effective December 30, except ACME (for which we have no record) and GAIR, HINDE & DAUCH and CORRUGATED PAPER BOX (all of which changed on January 2, 1951). In all cases the increase was 5 per cent. All of this has to be related to the facts that the kraft board mills did not make their announcements until December 30, that HINDE & DAUCH's letters were only dated on December 29 and would therefore not reach the addressees until the next day, that BATHURST's Sales Manager's memorandum in its original form did originally state that new board prices would be effective on December 29 but was amended to December 30, and that in the end all three board companies made their increases effective on December 30. In addition, Mr. Hayes's compilation of 'Board Costs per M sq. ft.', incorporating the new increased board prices is also dated: 'From December 29 - 1950' (Serial 24505 APT).

292. The last-mentioned document was included in a memorandum written by Mr. Hayes and dated December 30, 1950. If this was committed to the mail, it could not have reached anyone before Tuesday, January 2, by which time virtually all had acted upon its recommendations. Copies, or partial copies, of this memorandum were found at HYGRADE (Serials 18495-6 HCL), ACME (Serials 24503-7 APT), CANADIAN WIREBOUND (Serials 12043-5 CBT), MARITIME (Serials 20273-6 MHP), GAIR (Serials 3818-9 and 3832-4 GCT), STANDARD (Serials 16496-500 SPB) and SHIPPING CONTAINERS (Serials 21150-4 SPL).

(Statement of Evidence, Vol. II, pp. 413-14)

The memorandum proper included one page headed "PAPERBOARD" which listed the new prices of the three grades of containerboard and provided the compilation of "BOARD COSTS PER M. SQ. FT.". It goes on to refer to increases in costs of other materials. It then contains the following:

" . . .

READY RECKONER MATERIAL TABLES:

Until such time as stabilized conditions warrant the issuance of a revised material table, we recommend the use of tables issued against costs of Sept. 1 - 1950 with a compensating factor which will increase them to cost basis of Dec.30 - 1950.

This factor is :

Sept.1 Material Tables + 5% = Current Material Costs.

. . ."

(Serials 24504-07 APT)

Another more elaborate memorandum dealing with exactly the same subject matter, but undated, was found at Canadian Wirebound (Serials 12029-33 and 12047-51 CBT) and Gair (Serials 4325-30 GCT). These companies also had the other version of the memorandum. Included in the more elaborate memorandum is the following explanation of procedure:

" . . .

PROCEDURE:

Proceed through present manual in normal way. When the total cost figure is secured, add 5% to secure the new



cost figure. Your individual selected percentage of markup is added to the new cost figure to secure new selling price. I believe it is a trade practice to drop this figure to the next lower .05¢ unless it is at a multiple of .05¢ already. The small order added costs are added in as required after the basic selling price is secured.

. . .

RESULTS OF USING THIS METHOD:

Using a random markup figure of 5% [In fact the established mark-up for the industry in Ontario-Quebec ]:

	Old Costs (Manual)	New Costs (Manual + 5%)	Actual Costs. Costs.
Material	\$ 93.00	\$ 97.65	\$ 97.70
Conversion	20.80	21.84	21.84
Closure	4.20	4.41	4.60
Printing	3.00	3.15	3.15
Total Cost:	\$121.00	\$ 127.05	\$ 127.29
Plus 5%	6.05	6.35	6.36
S.P.	\$127.05	\$ 133.40	\$ 133.65

The 'New Cost' selling price is \$0.25 less than actual, due to absorption of \$0.05 on material costs and \$0.19 on tape, plus \$0.01 loss on not getting 5% M.U. on these costs.

. . ."

(Serials 4325-30 GCT)

Mr. Colclough of Hendershot testified that his company did not normally receive announcements of price changes from Bathurst, but did from St. Lawrence, normally by telegram, and from Hinde & Dauch and Gair, normally by letter. He said his company had worked a five-day week throughout his experience. Mr. Colclough gave further evidence which is in part as follows:

"Q. I just notice that December 30th 1950 was on a Saturday so that none of these price notifications could have reached you by the Friday - and I would like to show you this document, serial 48650 2 HPH, from Hendershot Paper Products Limited, dated December 29th 1950 - J.S. Colclough, General Manager, - 'Dear Sirs: We should like to advise that effective as of today our prices re corrugated kraft partitions

are advanced by 5 per cent' -- can you explain how it happened that you made that price change on that day?

A. May I just have a second to read this over -- you say December 29th was a Saturday?

Q. December 30th was the Saturday.

A. December 30th was the Saturday -- I can't recall why sir.

Q. Can you remember whether you received advance information as to the amount of the price changes at that time?

A. I don't remember that sir -- I can say we have had - when we were becoming concerned about some possible increase in board, we have contacted our suppliers to see if new prices have gone into effect and then we have been informed by telephone that a price increase might go into effect, as of a certain date, they might quite logically give us the amount of the price increase - I can see where that would apply here.

Q. When you first received intimation that any one board manufacturer in Canada was raising its prices for board, did you immediately raise your prices for cartons - without waiting to see whether your own suppliers would do likewise?

A. As soon as we have any indication that a board increase is going through we are certainly prepared to adjust our prices because our margin of profit is such we would be out of business.

Q. Well I am asking you a different question Mr. Colclough -- I am asking you this -- as soon as you hear that any one board supplier is increasing his prices, even though your own principal suppliers have not yet done so -- do you immediately raise your prices on cartons?

A. I feel that when one board supplier is going to increase his price, his competitors are certainly going to take advantage of that situation if they require a price increase and put it through.

Q. Do you mean by that, that it has been your experience that on every occasion of a price increase of board, the others have followed immediately?

A. In the main I would say yes sir."

(Evidence, pp. 4989-91)

Mr. F.C. Hayes was examined on these matters. His testimony is in part as follows:

"Q. And the effect of a general 5 per cent increase in that material sheet is to increase by 5 per cent the waste, the twine, the material and the adhesive.

A. That is correct. I think here I was trying to give them accurate information to the best of my knowledge, to show that the paperboard had gone up 5 per cent, but there was no question at all, that all the other items involved in the material end of producing box had gone up at least 5 per cent.

Q. And were you prepared to make that statement on the basis of a single announcement by any one of the board manufacturers?

A. That these things had gone up that amount?

Q. No, that the paperboard had gone up?

A. Yes -- based on past performance I was probably sure of that.

Q. And in other words because they had always gone up together in the past you assumed that they would in the future, is that it?

A. No.

Q. Or in the present?

A. No, based on the fact that when one went up it was a very short time when all went up.

Q. And you were prepared to make that statement on a general rule and inform all your manufacturers, whether they bought board from that particular mill that had announced it, or not?

A. Yes. These were the new prices and I assumed that they would be universal very quickly.

- Q. And on this particular occasion, if you look up the dated memorandum, the board costs sheet is dated December 29th, 1950 -- there (indicates document) December the 29th, 1950?
- A. In one case it is dated and in one case it is not.
- Q. Well I am speaking about the dated memorandum, that is to say Standard Paper Box which I showed you.
- A. Yes.
- Q. Do you see that?
- A. Yes, that's right.
- Q. And does that date, December 29th, indicate to you that you knew on the 29th of December that prices had gone up?
- A. No it doesn't necessarily indicate that.
- Q. Well then, how did you arrive at the figures in these board costs for \$1.65 for .009 caliber and \$3.09 for .016 and so on?
- A. I am not sure that that date, the 29th, is correct. I assume it is but I am not certain -- I know that was made out as soon as I secured the costs of the paper-board but whether it was properly dated or not I wouldn't like to say.
- Q. Well as a matter of fact if you put that out on December the 30th, wouldn't you have had to have had the information even ahead of the 29th in order to make all these calculations?
- A. Oh no -- I could do it within a day.
- Q. And you would go in on a Saturday before New Year's, especially to do it?
- A. I don't recall -- this may have been made out several days later for all I know and back-dated.
- Q. Back-dated to two different dates, the 30th and the 29th?
- A. Yes -- could be.

- Q. Did you do that kind of thing frequently?
- A. No, not as a rule and I don't say that I did it this time. I only say I don't remember how I did it.
- Q. I see.
- A. And the suppositions could be endless."

(Evidence, pp. 6198-201)

Manitoba-Saskatchewan, March, 1951

On this subject the Statement of Evidence says:

"298. In Manitoba and Saskatchewan, where a price increase on boxes using .025 liner had been instituted on December 1, and where no increase in .009 and .016 board costs were instituted at this time, the 5 per cent surcharge was not adopted in December 1950. In the case of .025 board, however, the price increased from \$5.89 to \$6.13 at Winnipeg, and pages for the manual affecting boxes made with this material were supplied by Mr. Hayes for the use of MARTIN PAPER (Serial 25248 MPA) and HILTON (Serial 9281 HBL), and to CANADIAN BOXES for their information (Serials 9790-1 CBV). They were taken into effect by HILTON and MARTIN PAPER on January 16, 1951 (Serial 9281 HBL; price manual sheet 8057 MPP, endorsed in handwriting 'In effect Jan. 16/51').

299. On March 28, 1951, MARTIN PAPER instituted the 5 per cent surcharge effective March 29 (Serial A15084 2MPP) and HILTON announced on March 30, effective the next day (Serial A11256 2HBL). In this instance the increase was attributed by MARTIN PAPER to 'constantly rising costs' and by HILTON to 'rising costs of manufacturing'. There was no increase in board costs. The effect of the increase, therefore, was for the two Prairies producers to appropriate for themselves the whole of the savings which resulted from the recent equalization of Winnipeg delivered board prices with those of Eastern Canada. They were able to do this, of course, because the incidence of the freight factor on boxes shipped from Eastern Canada did not change and the differentials between Eastern and Prairies box prices were therefore the same before and after the equalization of board prices. In other words, the phantom freight on board, previously collected by BROMPTON and DRYDEN, was now being collected on boxes by the Prairies box manufacturers, and the customers were in the same position as before."

(Statement of Evidence, Vol. II, p. 428)



B.C. and Alberta, March 1951

Calgary prices for .025 liner were increased at the end of December, 1950. Mr. Hayes prepared new manual sheets and sent them to all concerned on January 11, 1951. He sent the following copy of his letter to Martin Paper at Winnipeg to Mr. G.H. Holland of Martin Paper's Calgary office:

"Following telephone discussion with Mr. Glynn who informs us that the price of .025 linerboard at Calgary has recently advanced from \$5.89 to \$6.13 per M. Sq. Ft., we have compiled and are enclosing one set of new material sheets showing a total cost on 025-009-016 of \$13.89, and on 025-009-025 of \$17.08. These replace previous total material costs of \$13.72 and \$16.55 respectively, which sheets should be removed from the manual and destroyed.

We are also forwarding 4 sets directly to Mr. Holland at Calgary."

(Serial 25248 MPA)

Hayes sent revised material sheets to Mr. W.L. Barker of Pacific Mills (Serial 9791 CBV), who acknowledged their receipt (Serial 9790 CBV). Mr. W.R. Hilton of Hilton wrote to Mr. J.A. Whealy of Corrugated Paper Box in Toronto on January 16, 1951:

". . .

We received new sheets from Fred Hayes yesterday on the cost of .025 liner, and we are advancing our prices on this as of today."

(Serials 9276-77 HBL)

The new manual sheets were taken into effect by Martin Paper on January 16, 1951 (Serial 7760 MPP - see handwritten note).

Thus the two firms advanced prices on the same day on boxes made from .025 liner. As Pacific Mills did not produce .025 liner, the effect of the price increase by Hilton and Martin Paper was to improve the competitive position of Canadian Boxes' double-wall box in Alberta (Serial 9791 CBV).

With regard to the price increases put into effect in March, 1951 the Statement of Evidence says:

"303. Prices for the two principal grades of board .009 and .016, delivered at Calgary were increased by PACIFIC MILLS and BROMPTON on March 5, 1951, the former

effective immediately and the latter on March 7, 1951. PACIFIC MILLS announced by a letter dated March 5, and BROMPTON dispatched its telegram on the same day (Serial 25254 MPA; A35308 BNG - part Exhibit 50; Serial A26215 LCO).

304. As to the prices of shipping containers, the decision as to the new pricing basis for Alberta and British Columbia to be used by CANADIAN BOXES had been firmly made as of March 6, 1951, as indicated by the following handwritten memorandum from its files:

'Price advance - Corrugated only.  
B.C. & Alberta.

Effective March 31st an additional 5% will be added to our present costs. Mark-up, however, will remain the same 15%.

To facilitate revision of current Kardex add 5% to selling price.

In submitting new quotations use a mark-up of 20.75%.

- A Present Basis = Material + Conversion + Closure =  
Total; add 15%
- B New Basis = Material + Conversion + Closure =  
Total; add 5% = Total; add 15%

Mathematically this equals A + 5%

New specs. can be calculated as below  
Material + Conversion + Closure + 20.75%

Small quantity upcharge table does not change!!

(Serial 9807 CBV)

This was announced by W.L. Barker, the Sales Manager, to his staff in a memorandum of March 30, 1951 (Serial 9806 CBV). The day before, however, on March 29, 1951, MARTIN PAPER, Calgary, issued a notice to customers announcing an approximate 5 per cent increase (Serial 25612 MPE) and HILTON on March 30, 1951, sent out its announcement by letter of an approximate 5% increase effective on March 31 (Serial A11256 2 HBL)."

(Statement of Evidence, Vol. II, pp. 429-30)

11. Adoption of the Second Surcharge, June, 1951

A further increase in prices occurred in 1951. Some time before this action was taken there was a meeting of manufacturers of shipping containers.

On January 16, 1951 Mr. Hayes sent out notices of a meeting to be held in Toronto on February 8 (Serial A25638 2BAM). Copies of this notice found at Bathurst were also found at Martin Paper (Serial 8509 MPP), Martin-Hewitt (Serial 20278 MHP), Gair (Serial 3645 GCT), Dominion Corrugated (Serial A25338 DCT) and Hygrade (Serial 19131 HCL).

A memorandum written by Mr. P.J. Bernard of Hinde & Dauch to Mr. McArthur, dated February 9, 1951, is as follows:

"Subject Industrial Meeting - February 8, 1951.

In attendance:-

Messrs.

I. Aulbaum, [Oelbaum]

Acme Paper Box

Bob Diven

Alf. Dunn

(

(

Canadian Wirebound  
Boxes

Fred Whaley [Whealy]

Harry Oylor

(

(

Corrugated Paper  
Box

Al Mitchell

Chas. Whitten

(

(

Gair Co.

Herb Martin

Geo. Kischell

(

(

Martin-Hewitt

Ira Good

Superior Paper Box

Ed Wilkins

Office Mgr.

(

(

Hygrade Paper  
Products

Fred Hayes

Peter Hayes

H. Hayes

(

(

(

Container Statistics

2 Representatives from Hendershott [sic] Co.

M.H. McArthur

W.H. Palm

P.J. Bernard

(

(

(

Hinde & Dauch  
Paper Co.

In attendance for luncheon : Mr. H. Littlejohn [sic] of  
Kraft Containers

Various points brought up at the meeting were as follows:

- 1) To assign Fred Hayes to carry out a new cost survey.
- 2) The purpose of the above survey being to bring the Industry up to date on present cost of manufacturing with new type of equipment, which has been introduced in recent years, this being considered important as present figures are obviously antiquated.
- 3) To assign Fred Hayes to make a review of machine charges, inasmuch as it is pretty well established that many are away too low and a few possibly too high.
- 4) To assign Fred Hayes to review the matter of carload discounts.
- 5) Fred Hayes to report as soon as possible on what can be accomplished as the result of the review of scoring allowances for which manufacturers turned in specifications some time ago. It was reported that for all manufacturers to standardize on A Flute scoring allowances appears quite feasible; but, there exists a wide margin of difference on B Flute specifications, where no two manufacturers follow the same practices and it is expected that some will object to a standard for B Flute.
- 6) To study the matter of selling price for rubber printing dies, which is still at 10¢ per sq. inch.
- 7) The new price list, prepared by Macks Ltd., shows that on a 5 x 5 die, which we presently sell for \$2.50, their new price list shows a selling price to us of \$4.23 for the first set and \$3.17 for additional sets.
- 8) The point was brought up that considerable changes in personnel are being effected at Canadian Commercial Corporation and that their whole set-up is being revamped. Therefore, it was recommended that people do not deal with them on important matters until the new set-up has taken shape because it is doubtful that any decisions reached at this time will stand under the new management.

- 9) It was brought up that on quotation, Canadian Commercial Corporation will always give preference to a 'firm' price, which stands regardless of what delivery is needed and when they might want it. In other words, quotation with provisions that price is subject to change without notice, etc., is given only second preference.
- 10) The matter of buying new binders for price books, because the contents are getting heavier, was brought up.
- 11) It was decided that new binders with  $2\frac{1}{2}$ " rings would be purchased for the master books, which are kept by the pricing clerks of each company, but that the pricing books in use by the salesmen would be satisfactory, inasmuch as a good deal of the information does not necessarily need to be carried in their brief cases.
- 12) The point was brought up of how salesmen should answer the question 'How do you people arrive at the price of a box?' when asked by any purchasing agent. It was decided that no purchasing agent has the right to ask to see the conversion sheets and other data on which we base ourselves to arrive at a price, and that if pushed for information, the salesman's attitude should be that he is only using these sheets as a guide and has no knowledge as to how his office arrives at these figures.
- 13) Fred Hayes reported on the dollar volume of sales for shipping container firms during 1950, viz: \$54,000,000. which can be broken down as - \$38,000,000. from the group reporting and \$16,000,000. from the group that does not."

(Serials 14237-39 HDT)

Mr. Bernard, called as a witness, identified his signature on this document (Evidence, p. 6595).

Mr. Hayes, examined on this document, denied its accuracy as a report of what happened at the meeting in question.

"A. All right. I don't agree with Mr. Bernard's report here at all. I think that the majority of information that Mr. Bernard has here, if he got it at all, was not secured at the meeting that I held and I cannot understand how Mr. Bernard ever wrote this memorandum as purporting to be what happened at the meeting. This memo is not new to me.



Q. Were you at another meeting that day Mr. Hayes?

A. No sir I was not."

(Evidence, pp. 6209-10)

He admitted that two items, the Canadian Freight Classification and Canadian Standards Association, were discussed (Evidence, p. 6204).

Mr. Whealy of Corrugated Paper Box could recall only one thing specifically about this meeting, which was that the question of printing dies was discussed (Evidence, pp. 4818-21).

Mr. Oyler of Hinde & Dauch, however, testified as follows:

"Q. . . . I am producing to you serials 14237-14239 . . .

. . .

Q. Do you remember attending an industry meeting on the 8th of February 1951?

A. Yes I do.

Q. And is there anything in that account with which you would disagree?

A. As I remember the meeting that seems to cover the general text of it.

Q. And do you remember Mr. Harold Litteljohn being there?

A. Yes I believe I do remember him, coming in for lunch.

Q. Now was there a discussion of some of these points at the luncheon?

A. I don't remember - I was in as an observer chiefly - with Mr. Whealy.

Q. Is this unusual for you to go to a meeting like this?

A. Yes.

Q. And was this the only one that you ever went to?

A. There may have been one more - that is about all I can remember about it.

Q. Mr. Whealy's name is spelled differently from that - is it not?

A. Yes - that's correct."

(Evidence pp. 847-48)

A letter from F.L. Roderick of Wilson to an export customer dated June 13, 1951, said in part:

" . . .

. . . we are expecting an advance in price which may go into effect any time and the writer is going to Toronto today and expects to know the exact situation within a few days, and we will of course keep you posted.

. . ."

(Serial 22030 WBF)

On June 25 Mr. Roderick wrote to another export customer

" . . .

We were advised over a week ago by the paper mills that an advance in the price of board would definitely take place about the middle of June, and we have already received notice from 2 of the mills that the new price has already gone into effect.

. . ."

(Serial 22039-40 WBF)

This indicates that Mr. Roderick knew of an imminent rise in the price of board prior to June 18.

The first announcement of an increase in board prices did not, however, occur until June 21, 1951 when it was made by Hinde & Dauch. That firm announced the increase by letter of that date, the new prices to be effective June 22. One of the letters went to the competitor-supplier, Brompton (Serial A26225 LCO). Gair announced identical increases in the price of board on June 22 in a letter to Superior, the increases being effective June 25 (Serial 9996 SBW). On June 22 a memorandum was prepared at Gair setting out Gair's new prices and those of Brompton and Bathurst, although these latter two firms did not make their announcements until several days afterwards (Serial 3745 GCT).

The ensuing announcements are described as follows in the Statement of Evidence:

"322. BROMPTON notified its own mill of the same price increases by night letter dated June 26 (Serial A26226 LCO) and its Toronto office by the following memorandum, also June 26:

'Shipping Case Material Prices

This is to advise you that prices of these grades will be increased by approximately 8%, effective on shipments commencing Thursday, June 28th. This means .016 Fourdrinier Kraft will be \$3.33 per thousand square feet and .009 - 26# Kraft will be \$1.78 per thousand square feet. These prices apply to Winnipeg as well as Ontario and the East. Revised price sheets will be mailed to you as soon as possible. Mr. Godden is advising all customers concerned.'

(Serial A26229 LCO)

Mr. Godden's letters and telegrams to customers advising increases effective June 28 were forwarded on June 27 (Serials A26227-8 LCO, 20289-90 MHP, 9998 SBW).

323. BATHURST, whose new prices did not become effective until July 2, had also decided by June 25 that they would be adopted, as shown by Mr. Cockerill's handwritten memorandum of June 25th. This memo also shows that the same policy of quoting Winnipeg prices for .009 and .016 grades above the market was to be continued (Serial A25644 2BAM). The company's Sales Manager notified the Mill Order Department of the increases on June 28 in accordance with the above memorandum (Serial A25645 2BAM).

324. BROMPTON's Calgary prices became effective on June 28, 1951 (Serial 20477 LCM) and PACIFIC MILLS followed them on the two grades they supplied to MARTIN PAPER, Calgary, effective June 30 (Serial 25274 MPA).

325. The price of .025 liner to Winnipeg from BATHURST was increased to \$6.09 per M square feet (Serial A25647 2BAM), and was quoted by BROMPTON at \$6.08 per M square feet. BROMPTON did not supply this grade to Winnipeg, however, and it was not manufactured at Red Rock. This explains why it is an exception from the rule that BROMPTON's prices for Winnipeg and the East were the same."

(Statement of Evidence, Vol. II, pp. 442-43)

The time which elapsed between the dates of the announcements by the various board mills suggests at first glance that non-uniformity of prices might have existed in the industry for at least a short time and that converters, having learned of a price increase by one board firm to be effective on a given date, might order immediately from that same board firm at the old (lower) price or alternatively from some other firm (which had not yet announced its price increase) at the old unaltered price. That this could not be done, that the effective date of the price change was the same for all board mills regardless of the dates of their announcements, is shown conclusively in the testimony of Mr. D.H. Ross, President of Gair:

"Q. Now I would like to ask you whether this serial 3745, or perhaps I should put it this way -- if you can account for the fact that your company on June 22nd, 1951 were aware of the new prices of Brompton and Bathurst which had not yet been announced?

A. To the best of my knowledge we would not be aware, but we would be notified from Brompton and Bathurst immediately they had or -- let us take one company -- we were buyers -- we were always buyers and we were purchasers -- large buyers.

Q. Well, I take it you were notified when they made their announcement to their customers?

A. That is right -- we were customers of theirs.

Q. Well did you receive advance notice from them?

A. No, no -- not advance notice.

Q. I take it you can give no explanation as to why you would have that information on the 22nd of June then?

A. The 22nd of June -- serial 3745 is that it --

Q. Yes.

A. Well that would come from this Brompton Pulp mill -- I was not -- I think we would be informed by Bathurst and Brompton probably at that time -- have you anything different to that?

Q. Well I just showed you the documents indicating that the company --

A. All right. Let us take Bathurst dated 28th of June.

- Q. That is later than your memorandum, notifying the order department --
- A. -- but it would not make any difference -- they notified us that the price was that as I said before, we are just an ordinary purchaser of kraft liner and they are liable to increase their price tomorrow. They might telephone their agent here who might telephone our purchasing agent the day before this came out, but it would not be any more than that.
- Q. Just a day before -- this is six days before.
- A. Well, if they did, it would not make a great deal of difference -- the price was going up to us and that was all I probably was really worried about.
- Q. Did you then get busy and order some tons immediately?
- A. No, we did not get that privilege Mr. Gascoigne, I am sorry to say -- it just does not work because they have to get this out to the various people, probably they are serving a lot of people and they shoot them out to everybody -- we are generally informed, we being buyers, we are generally informed by telephone from their jobbers here -- I mean their salesmen, but that would not make any difference -- we still pay the increased prices. There is no advantage to us.
- Q. Is there anything unusual then in your having as much as a week's advance notification of change in price?
- A. By the time they get this price out, we may know by telephone -- I am not saying everytime -- but it could possibly be.
- Q. There is nothing unusual about your receiving a telephone advice that prices are going to be increased? --
- A. Well, we would not be able to buy against it.
- Q. -- A week or more later?
- A. Yes.
- Q. But you see we are dealing here with advance notice -- advance by one week?
- A. Well, we get no advance notice in the way of what I call advance -- two or three days to me does not mean a



thing -- it just does not alter our situation as a purchaser of kraft. I may be looking at it from the buyer's point of view, but I cannot step out tomorrow, as you maybe thought, and buy at a lower price -- the price I would have to pay, is the price that would be on that letter -- it may be two or three days, I would not like to go on record either way.

Q. When you get an announcement from Brompton today and from Bathurst three or four days later, I take it you cannot stock up from Bathurst either?

A. No.

Q. In three or four days?

A. I very much would like to do it, but I cannot do it.

Q. Have you ever tried to do it?

A. No. I have never tried to do it because it would be useless to try -- I have tried it in many things but it does not work.

Q. What this boils down to is the difference in dates on the price announcements of two or three days has really no meaning?

A. Not in my opinion -- it does not alter my position in any way."

(Evidence, pp. 6625-30)

The ensuing increase in prices of shipping containers is described as follows in the Statement of Evidence:

"326. The shipping container manufacturers throughout Canada all increased their prices at this time. Except for the two Maritime companies, the increase was approximately 10 per cent. The dates on which the several companies moved were from June 22 to July 5, a period including two week-ends and Dominion Day. The exact date for each company, where available, is found in Schedule VI in Appendix II. The first one to move was HINDE & DAUCH on June 22 (Serial 18985 HCL), not only ahead of all other shipping container manufacturers but also in advance of the kraft board producers. The way in which the increase was applied was to change the amount of the mark-up surcharge from 5 to 15 per cent, except in the Maritimes where it was increased less, to 13 per cent. The various basic mark-ups remained

unchanged in each territory; as they had the previous December. Mr. Hayes again notified the companies of the change, but on this occasion his memorandum was dated July 2, by which time most of the companies in Canada, with the notable exception of SHIPPING CONTAINERS, KRAFT CONTAINERS and HYGRADE, had already moved to the surcharges Mr. Hayes recommended. Copies of this memorandum were found at the following Eastern companies: CANADIAN WIREBOUND (Serials 10796-7 CBT); HYGRADE (Serials 18493-4 HCL); and HINDE & DAUCH (Serials 14275 HDT)."

(Statement of Evidence, Vol. II, p. 443)

In Western Canada, Canadian Boxes made an official announcement of a price increase on June 27, 1951, effective June 30, but did not specify the amount of the increase (Serial 91364 2CBV).

A memorandum found at Hilton at Winnipeg, signed by W.R. Hilton and three other officers of that company and dated June 28, 1951, showed that Hilton knew the new surcharges and mark-ups for all pricing zones of Canada (Serial 9290 HBL). Hilton's price announcement was issued and effective on June 28, 1951 (Serial A11257 2HBL). Martin Paper's announcements from Calgary and Winnipeg were both dated June 29 and were effective on June 30 (Serials 25283 MPA; A15085 2MPP).

## 12. Price Reductions in Western Canada, 1952

Competition was felt in Alberta and British Columbia from imported American shipping containers which were competitive despite a customs duty of 20 per cent and the costs of transportation involved. The main competition was in carload lots (Serial 9824-26 CBV).

On January 7, 1952 Canadian Boxes announced to its customers in British Columbia a reduction in price of 5 per cent. Simultaneously it established a series of f.o.b. points at which prices would be on a delivered basis rather than f.o.b. mill as before (Serial 91365 2CBV). Canadian Boxes used the manual unchanged, but reduced mark-ups from 15 per cent plus 15 per cent to 26 per cent.

Canadian Boxes' prices in Alberta remained unchanged until mid-March, 1952. Price reductions effective March 17, 1952 were then put into effect by Hilton, Martin and Canadian Boxes.

Canadian Boxes announced a price reduction of unspecified amount in a circular dated March 14, 1952 (Serial 91367 2CBV).

Martin Paper's notice, issued on March 17, specified a price reduction approximately  $3\frac{1}{2}$  per cent (Serial 20507 LCM). Hilton began to attach n to all invoices to Alberta customers specifying a price reduction of approximately  $3\frac{1}{2}$  per cent effective March 17 (Serial 9300 HBL). All three companies put the reduced mark-up into effect on March 17, 1952

Evidence that these identical reductions by all three companies were not the result of communication from seller to buyer to other sellers (as might be the case in some highly competitive market) is contained in a document from the files of the Edmonton branch of Martin Paper. It includes the following:

"MARKUP:

March 15 - 52 - 15% + 11%"

(Serial 25619 MPE)

Previous to this change the price had been the 1950 manual total of costs plus 15 per cent surcharge plus 15 per cent mark-up or 130 per cent of manual costs. The new price was the 1950 manual total of costs plus 15 per cent plus 11 per cent -  $3\frac{1}{2}$  per cent of 115 per cent is 4.025 per cent, or 4 per cent when rounded to the nearest whole number. Clearly this extract shows that as far as Martin was concerned the reduction was decided upon at least two days prior to March 17.

13. Manual Revision and Price Increase, 1953

On November 3, 1952 Mr. Hayes sent out the following agenda, copies of which were found at Maritime, Gair and Container Statistics (Serials 23442 MPH; 4093 GCT; 6814 CST).

"AGENDA FOR MEETING  
ROYAL YORK HOTEL LIBRARY  
MEZZANINE FLOOR  
THURSDAY, NOVEMBER 13 - 1952, AT 10 A.M.

1 - CANADIAN CLASSIFICATION REVISION COMMITTEE:

Through previous correspondence, you are familiar with the developments between this Committee and your industry. As all previous meetings on this subject have been held with the manufacturers of paperboard, we feel that before proceeding further, the manufacturers of cartons should have an opportunity of stating their views, as well as hearing the views of others. From such a developed discussion we may find that some constructive information or recommendation may develop. While this

meeting is principally for the carton manufacturers, we have invited such paperboard manufacturers as are not represented by the carton group to attend.

For those carton manufacturers who care to remain after the above subject is completed, we will have a brief report on the following subjects:

2 - FREIGHT:

(a) Growing tendency for customers to pick up cartons at carton manufacturer's plant with their own trucks, and request payment for delivery so made.

(b) Whether the ever-increasing cost of rail delivery warrants the establishment of zones where the extra freight cost would be charged by one of several possible methods.

(c) Freight to Newfoundland.

3 - CONTRACTS WITH DEPARTMENT OF  
DEFENCE PRODUCTION:

4 - SUGGESTIONS FOR CHANGES OR ADDITIONS  
IN MANUAL PAGES:

- (a) With [sic - Width] over 50".
- (b) Two piece cartons.
- (c) Four piece cartons.
- (d) Die cut costs.
- (e) Cost of steel rule dies.

5 - REPORT ON STANDARDS COMMITTEE:

- (a) Egg Crates.
- (b) Beer Cases.

Please notify this office not later than November 10th, as to the number of representatives from your Company who will attend this meeting, so that the necessary luncheon arrangements can be made."

(Serial 6814 CST)

Minutes of the meeting, signed by Mr. Hayes, and which reported discussion on only the first item of the agenda, were found at Corrugated Paper Box and showed that the following were present:



" . . .

Acme Paper Products Ltd.	J.I. Oelbaum; A.R. Oelbaum
Bathurst Power & Paper Co. Ltd.	G.T. Cockerill.
Brompton Pulp & Paper Co. Ltd.	R. Godden.
Canadian Wirebound Boxes Ltd.	A.M. Dunn; R. Diven.
Corrugated Paper Box Co. Ltd.	W. Ireland; H. Oyler.
Dominion Corrugated Paper Co. Ltd.	B.A. Fox.
Gair Company Canada Ltd.	W. Cherry; G. Cowan;
	H. Daubney. A. Mitchell.
Hendershot Paper Products Ltd.	J. Colclough
Hinde & Dauch Paper Co. Ltd.	M.H. McArthur; W. Palm
Hygrade Containers Ltd.	D. Tait; H.C. Wannacott.
	[Wonnacott]
Kraft Containers Ltd.	H.S. Litteljohn; G. Eley.
Martin-Hewitt Containers Ltd.	H. Martin; G. Kischell.
Standard Paper Box Co. Ltd.	C. Moisan Jr.
Superior Box Co. Ltd.	I. Good.
F.C. Hayes, Chairman.	

. . ."

(Serials 24324-25 CPO)

In view of the testimony by several witnesses that the only meetings which they attended and which dealt with freight classification were ones at which representatives of the railways were present, it should be noted that no railway representatives attended this meeting of November 13, 1952.

Mr. I. Good of Superior agreed that he did attend this meeting (Evidence, pp. 5104-10).

Mr. A.R. Oelbaum of Acme recalled that he attended this meeting. He recalled that there was a discussion of item 2(a) - customer pick-up of cartons at converter's plant, but could give no useful evidence about it (Evidence, pp. 5212-16).

Mr. Oyler of Corrugated Paper Box testified that he was present but could not remember discussion of any subjects other than those referred to in the minutes (Evidence, pp. 848-50).



Mr. C.N. Moisan of Standard recalled that he attended the meeting and that the agenda was completed. He recalled a discussion of customer pick-up of cartons, but said there was no decision reached on that subject. Similarly, although freight rates (item 2(b)) were discussed, no conclusion was reached by the meeting. He could recall discussion of certain parts of item 4, and on part (a) he recalled that an agreement was reached.

"Q. We will skip over the next - contracts with the Department of Defence Production -- and item 4 - Suggestions for changes or additions in manual pages -- and there they have 5 different items -- width over 50 inches - two-piece cartons - 4-piece cartons - die-cut costs - cost of steel rule dies -- do you remember those discussions?

A. I remember them in some cases - yes.

Q. Were the proposed manual sheets actually put up to the meeting for consideration?

A. No - they were just discussed at that time - there was a greater percentage of the large crating units for electrical firms that were being manufactured - they were possible to be manufactured in corrugated and - prior to that - there wasn't much -- consequently there was a move by the industry to get into larger equipment - to cope with this situation - and so on - because the blank over 50 inches requires a two-piece carton whereas with this new piece of equipment it could go up to 65 inches - approximately -- 60 to 65 inches wide instead of 50 -- there was just that discussion as to the effect that those who are equipped to handle the heavier blanks were not to charge over the 50 inches level -- or to cost it on the same basis -- because they were equipped to handle it - over the 50 inch maximum -- there was a discussion to reduce it because of the facilities being there - for those who had it.

Q. Well do you appreciate that there is a page in the manual providing for an extra charge for width over 50 inches?

A. That's right.

Q. And are you saying that there was a decision that these people who could make that, weren't to charge that?

- A. That's right -- it was deemed that those who were equipped with that type of equipment weren't necessarily - they definitely were not with the same costs, they were able to make that carton on a one piece basis - instead of 2 piece basis and were not justified to charge the customer what is the difference.
- Q. Yes -- I know that but was it agreed that they would not -- or was it decided that they would not?
- A. It was agreed - yes - it was agreed that they were to go on the basis of whatever equipment they had - no matter what -- so someone who would not have the 50 inch machine - over the 50 inches - would obviously not be in a position to compete -- I remember that one specifically because the equipment involved was of the nature of 100 thousand dollars - 80 to 100 thousand dollars.
- Q. Yes but you see, the point is --
- A. I remember that one specifically and that was discussed in the meeting on the basis that it wasn't justified to charge over the 50 inches -- and that was it.
- Q. I certainly see that it wasn't justified, but is it your recollection that the meeting actually decided that --
- A. No -- it was the recommendation that those equipped with the facilities should not charge that - over 50 inches - you see that was the reason for this coming up because some of the manufacturers had the equipment to cope with it and it was recommended that the situation over the 50 inches should not be dealt with like that.
- Q. Well now -- did your company have that --
- A. In this particular case?
- Q. -- equipment?
- A. No - we didn't have it.
- Q. And did you go out of production on that kind of thing?
- A. In some cases - yes.
- Q. Did you go out of it altogether?

A. No - there are some cartons and that - that we are not in a position to do on a one-piece basis and we charge on a two-piece basis - whereas another manufacturer is able to do it in a one-piece -- and he charges one-piece.

Q. Well now - you appreciate that --

THE COMMISSIONER: Excuse me Mr. Gascoigne - was a conclusion reached at the meeting Mr. Moisan?

WITNESS:- That it should? It was a conclusion reached at the meeting that there should be --

THE COMMISSIONER: Yes.

WITNESS: Yes - it was suggested - but I don't say that everybody did it."

(Evidence, pp. 1862-65)

He remembered that Messrs. Dunn, McArthur, Litteljohn and Martin remained for the discussion of suggested changes in manual pages and the freight item.

Mr. F.C. Hayes took the viewpoint that items 2(a)(b)(c) and 4 were proper subject matter for discussions at meetings of the industry. He said that there was not anything to report on any of these industry meetings except on the matters of the Canadian Freight Classification and Canadian Standards Association. He asserted that his minutes constituted a correct report of what took place (Evidence, pp. 6263-70).

One of the items on the agenda of the meeting of November 13 was freight to Newfoundland. This subject subsequently became the basis of correspondence between Mr. Hayes and Mr. Roderick of Wilson. The latter conferred with Mr. Dunkin of Maritime. The correspondence and discussions eventually gave rise to a new mark-up structure and elimination of freight tables formerly used for shipments to Newfoundland which was adopted at the time of the next general price increase of late 1953.

The documentation is as follows:

On January 12, 1953 Mr. F.L. Roderick wrote Mr. Hayes:

"We have just received Notice from the Furness, Withy & Co., for an increase in Freight Rate according to the Enclosed Copy. We would like to know what will be the procedure in this case. Should we add the extra 9% or should we absorb the loss ourselves? We cannot absorb much more loss now because we have absorbed two increases in Labour Costs amounting to 21% or even a little more within

the last two years, and we have not advanced our Cost Price any to the Buyers.

We would have to be competitive particularly at these times, and if we thought other shippers will be doing likewise, we would add the 9% to the cost of the Containers.

We will appreciate any advice you can let us have on this matter."

(Serials 6872-73 CST)

Mr. Hayes's reply of January 16 said:

"In reference to your letter of January 12th, regarding increased freight rates, I agree with you that there have been more than sufficient cost increases since July of 1951 to warrant an increase in the selling price of corrugated cartons. These increases have, of course, occurred principally in labour rates and in freight rates. I assume that the letter from Furness Withy & Company refers particularly to the freight rates to Newfoundland, and I would be glad if you would forward me the new rates so that I might do some work on them to find what the actual increase on the carton costs would be.

With freight advancing 9%, this of course does not advance the carton price 9%, but considerably less. As soon as I receive this information, I will forward you an analysis and such other information as I have, which I believe will allow you to make your own decision as to whether this extra cost is covered, or whether through competitive reasons you would have to continue to absorb it."

(Serial 6874 CST)

On January 21 Mr. F.L. Roderick wrote:

"We are enclosing herewith a Figuring Sheet showing how we make up costs.

With the new Freight Rates to Newfoundland advancing 9%, we find it necessary to add 14% to the cost.

We would eliminate the 8% Mark-Up and Freight, and in its place we would use 22%. The old Freight rate was \$1.02 on Carload Rates, and \$1.77 on L.C.L., and when we figured up the average increase and add the freight to the Mark-Up, we find it runs over 22%.



We have talked with Mr. Dunkin who kindly came to see us, but we did not have time to study the actual figures, which we thought would be about 18%.

Please note that if we used 18% we would be lowering the cost on Newfoundland shipments, which we would not like to do at this time.

We will be obliged for your advice on this matter.

. . ."

(Serials 6881-83 CST)

In the spring of 1953 Mr. Hayes began to issue a series of "reports" dealing with various aspects of the manual pricing system, asking for comments or acceptance of the proposals contained therein.

The first of these which appears in the documentary evidence, issued by Mr. Hayes on April 1, 1953 was entitled "REPORT ON NEW MANUAL SHEETS" (Serials 8573-77 MPP; 18671-75 HCL). A covering memorandum was in part as follows:

"REPORT ON NEW MANUAL SHEETS.

It is necessary, in reference to certain data on corrugated containers, to still refer back to the W.P.T.B. Manual 'B', and while some of the information given in this book remains correct, a great deal of it, particularly on costs, is most decidedly incorrect, due to the tremendous increase in labour costs which has developed since this book was published. For this reason, and also complying with many requests, we are recommending that a series of sheets be issued which could be incorporated in the current manual and eventually eliminate all reference back to Manual 'B'. We are therefore enclosing four drafts which cover information, particularly on the determination of sheet area in various types of slotted or corner cut containers. . . .

. . .

We are principally interested in a careful check of all the information given on these sheets, and would suggest that where your understandings vary from the allowances shown, that you immediately give this office your method. Please remember that the formula given on these sheets is for the sole purpose of securing the area from either container or sheet area tables, and does not necessarily coincide with the sheet dimensions secured from the addition of your own individual score allowances.



. . .

I would like to have your comments or acceptance of these sheets not later than April 15th."

(Serial 8573 MPP)

With regard to the attached documents, the Statement of Evidence says:

"365. . . . The attached sheets, which were later largely or wholly incorporated in the revised manual of 1953, were three pages for 'Determination of Sheet Area' of standard and special slotted containers and one page of 'General Information'. As indicated in the covering memorandum, these drafts were in fact a proposal to continue into the new manual a standardized method of determining the amount of material to be charged by the participants when manufacturing particular styles of boxes. The effect of such a system in operation is to remove the minor differences in price which would result if manufacturers were to charge on the basis of the actual dimensions of the sheet which they used, which dimensions are affected by variations in score allowances, depending upon the type of score used, the machinery used and the predilections of their technical personnel. In addition to the differences in scoring allowances, minor differences in material charges would also occur unless some standard system of approximation as referred to in these pages, as well as those contained in the carton area tables of the manual, were used. And as indicated in the footnote to Serial 8575 MPP, there would be variations according to whether the box was stitched or taped in closure."

(Statement of Evidence, Vol. II, pp. 471-72)

On April 10, 1953 Mr. Hayes signed and issued a memorandum entitled "NOTES ON 1953 CONVERSION". Copies were found at Hygrade (Serials 19103-18 HCL) and Hinde & Dauch (Serials 14375-90 H). After an introductory review of the rise in the costs and prices of cartons and a comparison of these increases with those in certain wholesale price indexes, the memorandum went on to say:

" . . .

. . . The last time that any manufacturer, to our knowledge, made an upward revision in selling price was around July 1st 1951, which is getting close to a two year period, and during this period, to our knowledge, considerable extra costs have been absorbed by the manufacturer in the payment of increased freights, increased labour costs, higher depreciation due to lower volume.

We wish to make it absolutely clear that we are not suggesting a further increase in price, for it is not our responsibility to make any comments or recommendations on selling price, in fact, we are quite positive in declaring that the establishment of a selling price is a matter which is the exclusive responsibility of each manufacturer. We do feel, however, that this office should have in its possession at least draft copies of conversion tables similar to those now in effect but which would cover the costs that prevail today, so that any plant might have, if he so desired, copies of such costs in order that he might, if he so desired, revise his price or that he might reevaluate his today's selling price against today's costs.

We are therefore enclosing herewith a series of tables dealing with conversion, and showing several basis [sic] which have in the past been considered correct, and several possible conclusions which can be used against your present day costs to secure information as to which of these, if any, are close to today's costs. A more detailed explanation of these sheets appears below.

. . . "

(Serials 14375-90 HDT)

The memorandum then indicates sections of the manual where revisions might be proposed and describes a series of attached tables.

On May 4, 1953 Mr. Hayes wrote to Mr. Max Sutcliffe of Canadian Wirebound as follows:

"Confirming our telephone conversation, I have arranged an informal discussion on conversion costs to take place in our office on Monday, May 11th. at 2 p.m.

At the present moment we expect four companies to be present, and while I expect to be out of town for the balance of the week, we will have our office call you if there is any change in this programme."

(Serial 12486 CBT)

Similar letters were sent to H. Gee of Hinde & Dauch and W.F. Ireland of Corrugated Paper Box (Serials 14391 HDT and 24331 CPO).

On May 27, 1953 Mr. Hayes circulated a memorandum called "COMMENTS ON THE 3  $\frac{1}{2}$ % and 5% CARLOAD DISCOUNTS" (Serials 23872-80 CPO). This consisted of a proposal to combine

small quantity charges, machine charges and a reduced quantity discount into a single table with the object of increasing manufacturers' returns on carload sales. This proposal was not adopted in the period ending in 1954.

On June 9, 1953 Mr. Hayes put out another "CONFIDENTIAL REPORT ON CONVERSION", copies of which were found at Corrugated Paper Box and Hygrade (Serials 23882-89 CPO and 19119-26 HCL). This was a "report on suggested changes in conversion which possibly might be adopted by individual companies at some future date". The memorandum stated three methods by which prices might be raised and suggested several charges under various headings. The memorandum concluded: "As we wish to get these sheets printed and in stock ready for use before the holiday season starts in the printing establishments, we would suggest that they be analyzed immediately." (Serial 23882 CP

Of the memorandum's 15 tables of suggested new conversion costs for containers, sheets, container printing, sheet printing and partitions seven were adopted in the 1953 Manual, six were lower than the tables in the 1953 Manual and two did not appear at all in the 1953 Manual. The suggested new conversion costs for the 20-pound standard container, the 90-pound - 120-pound standard containers (single wall) and all double wall standard containers in Serials 23883-85 were the same as those which appeared for these containers in the 1953 issue of the Manual. The new costs were about 25 per cent above those appearing in the 1950 Manual and in the range of 5 to 10 per cent above the costs actually being charged at the time the memorandum was compiled. The suggested new conversion costs in these serials for the 40-pound standard container (16-17 per cent above the 1950 Manual and 5-6 per cent above the costs being charged at the time the memorandum was written) and the suggested new conversion costs for the 65-pound standard container (25 per cent above the 1950 Manual and 7-7½ per cent higher than costs being charged at the time the memorandum was written) were not, however, as high as those appearing in the 1953 Manual. The conversion costs in the 1953 Manual for the 65-pound box were about 10 per cent above those suggested in the memorandum. Those in the 1953 Manual for the 40-pound box ranged from 2.2 per cent to 4.2 per cent above those suggested in the memorandum.

Further memoranda were issued by Mr. Hayes, but it is unnecessary to reproduce all of them. The foregoing shows the character of the communications taking place at this time. In one of these further memoranda, however, which was issued after mid-August 1953, a clear indication is given that linerboard prices were going to rise (Serial 6945 CST). It went so far as to work out a table called "IMAGINARY LINER PRICES" on the basis of \$153.50 per ton of kraft board, an 8 per cent increase over existing price levels. This was the amount of the increase later adopted by all the board mills. The

memorandum contained proposed changes in conversion cost, and calculated the effects on prices on the basis of a 5 per cent mark-up.

Bathurst, the first board mill to announce a price increase, did so by telegrams to its customers on October 2 and October 5, 1953. The increase on liner, effective October 5, was 8 per cent, and the price per ton \$153.50, both of which had been forecast by Mr. Hayes. All of Bathurst's Winnipeg prices were above the market (Serials A25671-73 2BAM, A25678 2BAM; A27107-08 BAN).

The further sequence of events is described as follows in the Statement of Evidence:

"382. ST. LAWRENCE, the BROMPTON name now having been discontinued, notified its customers that prices would be increased effective October 19, in telegrams sent on October 16, 1953. By letter of October 20 the amounts of these increases were announced. They were the same as those of BATHURST except for Winnipeg, ST. LAWRENCE continuing its practice of quoting the same price for Winnipeg and east (Serials A25554 2LCM, A25892 LCN, A25355 DCT, 24836 2HDT, A25502 2LCM, 25320 MPA). DRYDEN had announced the same prices for Winnipeg effective October 15, 1953 (Serials A11267 2HBL, 25317 MPA).

383. GAIR announced the same prices on October 23 (Serials 25075 2CPO, A18390 3GCT) effective October 26, and HINDE & DAUCH on October 29, effective the next day (Serials 25076 2CPO, A25897 LCN).

384. On September 30, several days before BATHURST made the initial price announcement on October 2, and before it had notified its own Mill Order Department and other personnel (Serials A25674-5 2BAM), Mr. Hayes delivered to his printer twenty pages of material 'costs' based on the new board prices. These covered all types of single-wall boxes. Therefore Mr. Hayes must have received confirmation of the \$153.50 price and the breakdown of grades and prices per M square feet from BATHURST or other source having knowledge of the decision. It is also to be noted that this work was not released by the printer until October 15. The next batch of twelve material 'cost' pages for the manual, covering double-wall specifications, was not delivered to the printer until October 2, 1953. These were, of course, based upon exactly the same board prices as single-wall. All the principal conversion tables for the manual were delivered to the printer on September 25. Less essential manual pages, such as certain double-wall material, single-faced material, general information sheets and the manual index were delivered to the printer during the remainder of the



month of October (Exhibits 28 to 35 inclusive and evidence of the printer, Mr. T.H. Mitchell, Evidence pp. 1125-31)."

(Statement of Evidence, Vol. II, p. 478)

Long before the manual was available in printed form, Kraft Containers and Shipping Containers announced price increases on shipping containers in identical letters dated October 3, 1953. The effective date of the price increase was October 6, 1953 (Serials 25069 2CPO; 24834 2HDT).

The dates of price changes by the various container firms are shown below:

Table 21

The Paperboard Shipping Container Industry,  
Schedule of Effective Dates of General Price Change, 1953

<u>Maritime Provinces</u>	<u>Date</u>
Maritime	November 9
Wilson	October 30 <sup>(1)</sup>
<u>Quebec and Ontario</u>	
Champlain <sup>(2)</sup>	October 26
Sherbrooke <sup>(3)</sup>	November 10 <sup>(1)</sup>
Shipping Containers	October 6
Standard	October 26
Martin-Hewitt	November 2
Acme	October 13 <sup>(1)</sup>
Canadian Wirebound	November 4
Corrugated Paper Box	November 2
Dominion Corrugated	(4)
Gair	November 3
Hinde & Dauch	November 2
Hendershot	November 2
Kraft Containers	October 6
Superior	October 28
Hygrade	November 9

- 
- (1) On or before this date.
- (2) Dates of price changes by this company correspond with those of its affiliate, Standard Paper Box (Evidence, p. 1883).
- (3) Began operations in 1952.
- (4) No increase in prices made (Evidence, pp. 4846-48).



Table 21 (continued)

Manitoba-Saskatchewan

Hilton	November 16
Martin Paper	November 13

Alberta

Hilton	-
Martin Paper	-
Canadian Boxes	-

British Columbia

Canadian Boxes	-
----------------	---

---

Sources: A30450-51 2MPH; 21916 WBF; 21080 SPL; 17144 SPB;  
A25254 DCT, 25263 DCT, A25287 DCT, A25324 DCT,  
A25344 DCT; A22960 3CPO; 13624 HDT; 46981 HPH;  
19464 KCH, 19474 KCH; 9926-27 SBW; 18999 HCL;  
7559 MPP; 14870-77 BAM.

In the Ontario-Quebec zones the pricing was changed from the old manual plus a 15 per cent surcharge plus a mark-up of 5 per cent to the revised manual plus a mark-up of 5 per cent and no surcharge.

With regard to the Maritimes, the Statement of Evidence says:

"389. In the Maritimes, however, the mark-up changes were quite radical. Before the price change the mark-up for Nova Scotia, New Brunswick and P.E.I. was  $12\frac{1}{2}$  per cent and there was a 13 per cent surcharge. After the price change there was only one mark-up of 10 per cent. For Newfoundland, the mark-up picture before the price change was 8 per cent plus a surcharge of 13 per cent, plus the application of freight factors set out by CONTAINER STATISTICS. After the price change these freight factors were eliminated and a single mark-up of  $17\frac{1}{2}$  per cent was applied. MARITIME, who did the bulk of the business available from Newfoundland, did not announce its price change until November 7 and brought the new method into use on November 9. WILSON, its principal competitor in the mainland provinces of the Maritimes, did not change its prices until October 30. On October 6, however, the new mark-up structure for all Eastern Canada, including the Atlantic provinces, was set out in a memorandum written by A. Crawford of KRAFT CONTAINERS. This memorandum, bearing the subject heading 'Mark ups for pricing in lieu of Additional Freight Rates from Hamilton', was as follows:

'On all shipments to the following destinations the mark up will be as follows:

Ontario	5%
Montreal	5%
Quebec	5%
East of Province of Quebec	10%
Halifax, N.S.	10%
St. Johns, N.B.	10%
Prince Edward Island	10%
Newfoundland	$17\frac{1}{2}$ %

These mark ups are applicable on all accounts.

All prices delivered.'

(Serial 43546 2KCH)

..."

(Statement of Evidence, Vol. II, p. 482)

A similar memorandum setting out Newfoundland and Maritime mark-ups, dated November 1, 1953, was found at Gair (Serial 37115 2GCT).

Mr. Hayes's preknowledge of intended price increases for board and boxes is specifically attested to by Mr. Weldon of Bathurst:

"A. . . . If you are studying your situation at all, as we are constantly doing, you will decide -- at least, as far as we are concerned, that is how we reason -- if you change the price of board you should also be in a position to change the price of boxes, and it would mean that preparation of that kind would be made.

Q. Does not that involve pre-knowledge on the part of Mr. Hayes about all the things you intend to do before you make any announcement to anybody about your intentions?

A. In the end, yes, it would. Obviously he could not prepare a manual for us unless we had told him, but we might also say that in discussing these things we would examine various combinations before finally coming to something of that order and the time element might be quite short."

The situation in British Columbia and Alberta is described in the Statement of Evidence as follows:

"393. When the board price increase in Saskatchewan and east was announced in October there were no changes in board prices for Alberta. DRYDEN issued its increased Winnipeg prices on the same notice which announced Alberta prices unchanged from those PACIFIC MILLS and ST. LAWRENCE had issued in June 1951 (Serial 25317 MPA). The failure of the mills to increase Alberta and B.C. prices was probably the result of continued U.S. competition or potential competition on shipping cases in that area. D.A. Hindle, of MARTIN PAPER, sent the following telegram to R.C. Godden at ST. LAWRENCE on October 29, 1953:

'Our Alberta plants are greatly concerned over the increased Wpg. prices \*STOP\* Their competitive position with Vancouver and Seattle makes it impossible to carry off any increased material cost \*STOP\* I would like your assurance that no such increase is contemplated in Alberta until situation on the Coast changes \*STOP\* Please wire or phone soon as possible'

(Serial A25896 LCN)

And on November 19, 1953, Mr. Hindle wrote a letter to Mr. Godden which included the following:

'I suppose you are still "mulling" over the matter of prices in Alberta. You have not replied to my wire in which I stated my concern over the possibility of increased prices in Alberta until there is a change in the competitive situation. As you know, Vancouver and Alberta plants are pretty well guided by the price level at Seattle. We had one price increase, you will remember, some time ago which proved not too beneficial to us and we had to reduce our prices  $3\frac{1}{2}\%$  in Alberta and, I believe, 5% in Vancouver.'

(Serial A25906 LCN)

394. Similarly, there was no increase in board prices charged to CANADIAN BOXES by PACIFIC MILLS, so that now Pacific Coast board prices were actually below those in Eastern Canada.

395. There was also no manual revision, or other change in shipping container prices, for B.C. or Alberta until May 1954. . . ."

(Statement of Evidence, Vol. II, pp. 485-86)

14. Relationship of Board and Container Prices  
in Canada to Those in the United States

In section 12 of this chapter it was shown that Canadian Box reduced the prices of shipping containers in British Columbia by five per cent in January, 1952 and established a system of prices f.o.b. point of delivery at several places at which the prices formerly had been on an f.o.b. mill basis. In Alberta, Hilton, Martin Paper and Canadian Boxes reduced container prices on March 17, 1952. In both these cases the reductions were made to meet the competition of imported American containers. The evidence in section 13 shows that when in October and November of 1953, board and container prices were increased in the other areas of Canada, those in Alberta and British Columbia remained unchanged and that this was due to the influence of American prices. The evidence seems to be clear that container prices in Alberta and British Columbia were set with respect to the prices of American containers laid down in those Provinces. The effect of American price on British Columbia and Alberta prices for containers was still in evidence in 1956 and presumably as late as 1959 as well (see section 3 of Chapter X of this report).



With respect to container prices in Eastern Canada, as will be seen from section 1 of Chapter VI of this report, the Campbell Soup Company received special discounts on containers purchased from Hygrade and Kraft Containers and these concessions were obtained as a result of Campbell Soup's ability to import cartons on favourable terms from the United States. It should be noted that Campbell Soup Company has factories located at Toronto and Chatham.

In addition, the H.J. Heinz Company of Canada Limited, subsidiary of the American firm of similar name, received a confidential discount of five per cent from Hinde & Dauch which was quite separate and distinct from the carload discounts granted by the latter. Mr. E.V. Anderson, General Manager, Marketing, of Heinz testified that this discount had been in effect ever since he had been with the company and that he had been with Heinz for 20 years prior to 1956 (Evidence, pp. 6960, 6973). Mr. Anderson testified that the reason why this discount had originally been given was so that Heinz would buy its boxes in Canada (Evidence, p. 6974). The Heinz Company also had received since 1951 a similar additional discount of five per cent from Hygrade (Evidence pp. 6974-75). The Heinz Company had made some importations with some slight savings in cost. Mr. Anderson doubted that such imports were made in order to demonstrate to Canadian box companies that Heinz could import boxes if it wished. He usually knew, however, what the U.S. prices for boxes would be. He denied bargaining with Canadian converters for lower prices on the basis that Heinz could import some supplies from the United States. He did say, however, that his company had approached American suppliers, rather than the reverse, although the approach to those American suppliers was made through Heinz's American parent. When asked if there were any advantages in importing American boxes at the moment (May, 1957), he replied that his firm was exploring that possibility. Delay in delivery was the only disadvantage he mentioned in connection with the importing of boxes (Evidence, pp. 6962-66).

Despite Mr. Anderson's denial that the threat of importing boxes from the United States had ever been used in order to obtain lower prices from Heinz's Canadian box suppliers, it is likely that the possibility of Heinz's importing was a factor in the granting of additional discounts to that company by Hygrade and Hinde & Dauch. It should be noted that Heinz's factory is located at Leamington, Ontario, a point close to the American border.

It is reasonable to conclude that the prices of shipping containers in Eastern Canada are fairly close to the landed cost of American containers. If the prices charged by the Canadian companies were generally of the order of five per cent above the landed prices of American imports to large users whose plants are close to the American border, the differences are explicable in terms of larger freight costs to points more remote from American box factories, or



in terms of the value of more convenient deliveries from Canadian converters, or in terms of the difficulties that small users may experience in establishing business relations with American box manufacturers, or some combination of these factors.

With respect to the relationship of Canadian board prices to American board prices, the following extracts from the testimony of Mr. R. Godden, Sales Manager, Kraft and Board Division, St. Lawrence are of interest:

"Q. What were the actual mechanics of setting the Calgary-Edmonton prices as far as you were concerned?

A. The actual mechanics were (1), to look at the prices that were in effect by Pacific Mills at the time, look at the freight, look at the prices of American board, freights, costs, in other words the landed costs of the board and put our price at as high a figure as I felt it was reasonable to go.

. . .

Q. Has there been any exception to that method of establishing your Calgary prices?

A. I don't think so -- . . ."

(Evidence, pp. 6082-83)

"Q. You were mentioning earlier the imports of board that have taken place from the United States into western Canada -- have there been similar imports into eastern Canada too?

A. Yes.

Q. And what was the reason for that?

A. Prices in the United States are much -- they move possibly as quickly or quicker than we do and there are times when board in the States, plus duty, can be brought into Canada right at the moment the exchange has thrown us into, shall I say, a precarious position. That is one of the reasons -- other reasons are that there are companies that have bought American board for specific reasons best known to themselves -- 90 lb. for example, is not being produced in Canada to my knowledge but there is quite a lot of that coming in.

Q. And in respect of your first remark that prices were more sensitive down there -- or something to that effect -- I would like to ask you whether you had been accustomed to follow the American prices?

A. Yes."

(Evidence, pp. 6084-85)

Furthermore there is in evidence a document (Serial A25616 BAM) which shows that someone in Bathurst in September, 1953 was keeping a close watch on the cost of board laid down in Hamilton from Macon, Georgia, the location of an important American board mill. From the figures in this document it can be shown that the Canadian board prices put into effect in October, 1953 were approximately one per cent below the landed cost in Hamilton of American board.

Finally, there is some evidence that the landed price of American board was kept in mind by Mr. F.C. Hayes when he calculated the material "costs" for the revised Container Statistics manual put into use in the fall of 1953. The following is an extract from a memorandum written by F.C. Hayes, headed "THIRD REPORT ON 1953 CONVERSION", written some time after September 1, 1953:

"We have received considerable criticism of the conversions previously recommended under date of April 10th 1953, and in order to correct these and also to give an idea of the amount in dollars and in percentage of any possible increase in costs, we find it is necessary to use a new basis for paperboard, even though such basis is purely imaginary. They are, however, based upon considerable reliable investigations, taking into account the new American board prices effective September 1st, and the new freight allowances which were established on American board about the middle of August. We are listing board prices below:"

(Serial 6945 CST, Part of 6945-61 CST)

That Mr. Hayes should have considered the cost of imported board significant is not surprising in view of the evidence given above on the relationship of Canadian board prices to American board prices and of the fact that costs of materials accounted for about 66 per cent of the total cost of containers.

## CHAPTER VI

### APPARENT EXCEPTIONS TO CONTAINER STATISTICS LIMITED'S SYSTEM

#### 1. Special Prices and Discounts

A number of the companies associated with Container Statistics or Mr. F.C. Hayes gave confidential discounts from the price levels for containers established under the Container Statistics system. These discounts were distinct and separate from the discounts regularly given on purchases in carload or two-carload quantities, and distinct also from freight allowances. These special discounts resulted in prices to certain consumers which were below the levels of price generally charged by the associated companies.

Several features of these discounts are of interest: (1) the size, and the extent to which the resultant prices were below the regular prices; (2) the conditions which gave rise to such price concessions; (3) the proportion of total sales, both of individual companies and of the shipping container industry as a whole, represented by the sales subject to such concessions.

The following paragraphs do not exhaust the evidence on special discounts and prices but give only a sampling of it.

Maritime gave certain concessions to Oland & Son Limited, A. Keith & Son Limited, and W.H. Schwartz & Sons Limited, all of Halifax. The first two are related brewing companies and in 1954 were Maritime's largest customers. The third, an importer of spices and other food items, was a minor customer (Exhibit 66).

The reasons for the granting of price concessions to these companies are stated in Maritime's Return of Information of April 5, 1957:

" . . .

In the organization stage (1931) of Maritime Paper Products Limited (which is now Industrial Containers Limited), long term contracts were made with Oland & Son Limited, A. Keith & Son Limited and W.H. Schwartz & Sons Limited. These companies, or their principals, became shareholders of Maritime Paper Products Limited and had representation

on its Board. As far as can be ascertained the Company probably would not have been born without these assurances of long term commitments to purchase.

As a result, ever since the inception of the Company special prices have been given to:

Oland & Son Limited  
A. Keith & Son Limited  
W.H. Schwartz & Sons Limited

These are not discounts or rebates or allowances in the usual sense and presumably are not required by the return. As there was apparently, never any objection to the practice in the past, it has been continued.

. . ."

The Statement of Evidence comments on the price concessions to these companies:

"257. Col. S.C. Oland, President of Oland & Son Limited and its wholly-owned subsidiary A. Keith & Son Limited, and W.H.C. Schwartz, President of W.H. Schwartz & Sons Limited, had been directors of MARITIME and of its predecessor company since or before 1939 (Exhibit 66). Colonel Oland was also a substantial shareholder in the company (Exhibit 66).

258. The basis of calculating the prices for these accounts under the CONTAINER STATISTICS system of pricing was at most times identical to the basis in use by the Ontario-Quebec shipping container manufacturers, in that the Ontario-Quebec mark-up of 5 per cent was applied to the manual factors instead of the much higher mark-up generally applicable. In the price period extending from the end of June 1951 to November 1953, however, when the surcharge on the manual factors was 13 per cent in the Maritimes and 15 per cent in Ontario and Quebec, the mark-up for the two brewery accounts was raised to 7 per cent. The result was that prices were still at approximately the same level as Ontario-Quebec prices (e.g.,  $\$100 + 7 \text{ per cent} + 13 \text{ per cent} = \$120.90$  and  $\$100 + 5 \text{ per cent} + 15 \text{ per cent} = \$120.75$ ) whereas prices for Schwartz were lower (e.g.,  $\$100 + 5 \text{ per cent} + 13 \text{ per cent} = \$118.65$ ) (Appendix III)."

(Statement of Evidence, Vol. III, p. 687)



A special discount of 5 per cent was given by Maritime to Canadian Cannery Limited, Middleton, Nova Scotia, a minor customer of Maritime. Maritime's Return of Information stated the discount was given "to meet competition which customer claimed existed" (Return of Information, April 5, 1957).

In the Ontario-Quebec pricing zone Hendershot was outstanding in the number of price concessions it granted and in the proportion of its total sales to customers who received such concessions, although the exact volume of sales subject to these discounts is not known. Many of these discounts arose, in the period with which this inquiry is concerned, from sales under contract. In most of these cases the continuation of the contract was at the option of the purchaser. The Statement of Evidence comments as follows:

"262. . . . In 1937 slightly over 85 per cent of its sales were made to seventeen contract customers and more than 70 per cent was to six. These contracts, and renewals of them, which in most cases were at the option of the purchaser, in many cases continued into the CONTAINER STATISTICS period. The continuation of these discounts into the CONTAINER STATISTICS period was known to Mr. Hayes and was the subject of discussions of an unspecified nature between him and Mr. Colclough, as indicated by the latter's evidence at pages 4907-26. Included in this evidence was Mr. Colclough's statement that since he took over in 1950 he has allowed the contracts to expire: 'wherever I possibly could'. . . . HENDERSHOT was unable to isolate the dollar value of sales of corrugated products to these special customers, and it was unable to supply any figures for 1948. Sales of all kinds, including specialty items, to the customers concerned, expressed as percentages of total sales of the company, were as follows:

1949 - 50.8%	1951 - 52.3%	1953 - 62.9%
1950 - 55.6%	1952 - 62.4%	1954 - 67.2%

(Exhibit 69; Return of Information, May 10, 1957)

The concessions to these accounts were calculated from base prices worked out through the manual and regular mark-up for the zone, and to all other accounts regular prices were charged."

(Statement of Evidence, Vol. III, p. 688)

Campbell Soup Company Limited was in receipt of discounts from Hygrade and Kraft Containers. The reason why the company obtained such concessions was its ability to import cartons on favourable terms from the United States. The Statement of Evidence says:



"274. Campbell Soup Company Limited is a wholly-owned subsidiary of Campbell Soup of the U.S., said to be the largest manufacturer of canned soups and related products in the U.S. and Canada combined (Standard Corporation Descriptions). The purchasing agent from this company, E.W. James, was one of two witnesses called from the purchasing side after evidence was obtained from members of the container industry, and his evidence starts at page 6996. He said that the company had initially been supplied by HINDE & DAUCH in 1931 and that the business was given to KRAFT CONTAINERS about 1946. He said the reason for this was that HINDE & DAUCH could not supply corrugated containers. In this connection it is certain that HINDE & DAUCH was manufacturing corrugated at that time, but it may be that they were unwilling or unable to provide corrugated in the volume or at the terms desired. In any event, the business was switched to KRAFT CONTAINERS, who accorded Campbell Soup a discount of  $2\frac{1}{2}$  per cent from then until March 1949, when it was increased to 5 per cent. This continued until February 1951, when the concession was withdrawn. Mr. James stated that from time to time the company has imported part of its requirements from the United States, where it secured boxes of higher quality at some price advantage (Evidence p. 7015). In 1956 they were securing 60 per cent of their requirements from the U.S. with advantages 'delivery-wise, price-wise and quality-wise' (Evidence p. 7018). The witness stated that they had no Canadian suppliers since the war, other than KRAFT CONTAINERS and HYGRADE. The statistics of purchases from these two companies show, by inference from the reduction in procurement during the two years 1951 and 1952, that heavily increased imports were made during those years. The statistics follow:

	<u>KRAFT CONTAINERS</u>	<u>HYGRADE</u>
1948	\$ 212,311	-
1949	263,425	-
1950	332,076	-
1951	108,458	-
1952	-	\$ 18,842
1953	-	417,537
1954	-	546,689

The heavy increase in Canadian purchases in 1953 apparently resulted from the fact that HYGRADE instituted a 5 per cent concession in December 1952 and maintained it thereafter. According to its return it did so to meet competition, and as seen above the competition was from imported supplies bearing the heavy burden of import duties and freight. . . . As

indicated by Mr. James's evidence, the fact that this investigation was proceeding did not correct this situation, since Campbell still found it advantageous to import the bulk of its requirements over the 20 per cent customs tariff and higher freights as late as 1956."

(Statement of Evidence, Vol. III, p. 694)

Since before 1948 and until December, 1953 Hendershot granted George Weston Limited and Weston Bakeries Limited discounts per cent below prevailing prices. In December, 1953 Hendershot increased this discount to 7 per cent. Hendershot granted to Dr. Jacks Foods Limited a discount of 5 per cent from January, 1948 until August 1953. After the latter date the company was granted a 7 per cent discount, although there were some discounts of 5 per cent in October and November of 1953. Hendershot granted McCormick's Limited a discount of 5 per cent from January, 1948 to November, 1953. From February, 1955 the discount to McCormick's Limited was 7 per cent. Hendershot did not allow carload discounts to any of these companies.

It is apparent that on purchases of less than carload lots that all these companies were receiving goods from Hendershot at discounts of 5 per cent or 7 per cent from prevailing prices. Despite the lack of carload discounts, it can be seen that these customers were still receiving discounts from Hendershot as compared with other suppliers on one-carload lots (of  $1\frac{1}{2}$  per cent, the difference between 5 per cent and the normal carload discount of  $3\frac{1}{2}$  per cent granted by the other companies associated with Containers Statistics Limited). These companies were receiving no real discount from Hendershot on two-carload orders as compared with terms available from other suppliers until Hendershot discounts were raised to 7 per cent.

The Statement of Evidence says:

"282. . . .

In 1951 HINDE & DAUCH instituted a freight allowance which amounted to a concession of about 3 per cent for McCormick's and this remained in effect thereafter, while HYGRADE in January 1952 began to allow Weston's at Brantford a 1 per cent discount and McCormick's a discount of  $2\frac{1}{4}$  per cent on sales of \$200,000 or 3 per cent on \$250,000. Thus the discounts of both HINDE & DAUCH and HYGRADE were much less than that of HENDERSHOT. Weston's continued to give HENDERSHOT the bulk of the business. HINDE & DAUCH and HYGRADE both stated that their concessions were to meet competition. The following table shows the sales by these three companies to the Weston companies during the relevant period:

	H. & D.	H E N D E R S H O T				H Y G R A D E	
		Dr.					
	<u>McCormick</u>	<u>Jackson's</u>	<u>McC.</u>	<u>Weston's</u>	<u>McC.</u>	<u>Weston's</u>	
1948	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
1949	n.a.	\$ 428	\$22,295	\$186,356	n.a.	n.a.	
1950	n.a.	12,558	74,065	142,063	n.a.	n.a.	
1951	\$ 51,246	-	78,279	108,021	n.a.	n.a.	
1952	110,542	-	34,440	185,421	\$173,480	\$73,679	
1953	178,724	16,125	7,090	214,877	230,197	55,692	
1954	161,134	27,900	5,799	290,122	260,358	25,853	

..."

(Statement of Evidence, Vol. III, p. 697)

Although the Statement of Evidence states that Weston's continued to give Hendershot the bulk of its business, this is not true or the group of Weston subsidiaries as a whole. Of the total sales to all three customers by all three box firms in 1954 (\$771,166) sales of 447,345, or over half the total, were made by Hygrade and Hinde & Dauch. Furthermore it is clear that Hinde & Dauch's sales rose very substantially in the years 1952-54 following its granting of a concession in 1951. Similarly Hygrade's business grew substantially in 1953 and 1954 after it made its price concession in 1952. Finally, it is notable that Hendershot's sales to McCormick's declined to a small fraction of their former size after 1951; in this connection it should be noted that this subsidiary alone of the three was granted discounts by both Hygrade and Hinde & Dauch.

The evidence does not establish, however, why Hendershot should have found it necessary to grant concessions so greatly in excess of those given by its competitors in order to retain the volume of business stated in the above table.

An instance in which a special concession was made to a customer because of the large volume of shipping containers purchased is the group of concessions given by Martin Paper to Canada Packers Limited:

"...

CANADA PACKERS LIMITED (Machine Charges)

(a) Canada Packers Limited, St. Boniface, Manitoba  
Canada Packers Limited, Saskatchewan

(b-c) The practice here referred to was made on behalf of the Company prior to January 1, 1948, by persons now

deceased for reasons now unknown, except that it is understood the practice originated in view of the exceptionally large volume of business placed by Canada Packers Limited.

- (d-e) The normal practice of the Company is to charge a machine charge of varying amount to every order which is run. However, in sales to Canada Packers Limited, it has been the practice of the Company to charge a machine charge every 30 days for each item which is not to be delivered immediately, such charge being without regard to the frequency of runs. The result has been that on some occasions Canada Packers Limited has been charged more than one machine charge for one run, and on other occasions, Canada Packers Limited has been charged only one machine charge for more than one run.
- (f) The usual method of payment in this practice is by omission of the machine charge from the invoice.
- (g) This practice is still in effect with Canada Packers Limited.

. . .

#### OMISSION OF SMALL QUANTITY MARK-UP

- (a) Canada Packers Limited (Manitoba and Saskatchewan)  
Swift Canadian Company, Ltd. (Manitoba and Saskatchewan)  
Burns & Company, Ltd. (Manitoba and Saskatchewan)  
Brandon Packers Ltd. (Manitoba)  
Intercontinental Packers Limited (Saskatchewan)
- (b) It is understood that Canada Packers Limited has never been charged the small quantity mark-up. In respect of the other companies named in Paragraph (a) above, the small quantity mark-up has been omitted commencing in the latter part of 1956.
- (c-d-e) Canada Packers Limited agreed that all its orders would be for base quantities. However, as it became apparent to the Company that Canada Packers Limited could not always take a base quantity within a short period of time, the Company decided, in view of the volume of business placed by Canada Packers Limited, to run less than base quantities without charging a small quantity mark-up. Having regard to the above mentioned practice in respect of Canada Packers Limited, the Company subsequently discontinued the small quantity mark-up for all packing houses in Manitoba and Saskatchewan. The amount of the small order mark-up is determined by reference to a table in the cost estimating manual.



(f) The method of payment is that the small quantity mark-up is not included in the computation of price.

(g) This practice is still in effect.

. . ."

(Return of Information, April 26, 1957)

Although many other instances could be cited, the foregoing illustrate the reasons, stated or inferable, for the granting of price concessions. They may be summarized as follows: (1) the customer was able to import shipping containers; (2) the customer purchased very large quantities of shipping containers; (3) the customer owned shares in the shipping container company or held directorships in the container company; (4) the shipping container company, during the initial stages of its organization, granted a price concession to the customer because the latter promised to be a continuing customer for such a large volume of containers as to constitute in itself a sufficient market to warrant the launching of the container manufacturing enterprise, provided that the container firm could hold all or most of the customer's purchases, the price concession being judged essential to the latter end.

In all cases the discounts or price concessions were made from the levels established by the Container Statistics system.

## 2. Use of Manuals Other Than the Manual of Container Statistics Limited

Several firms used pricing manuals which had not been issued by Container Statistics or F.C. Hayes. The purpose of this section is to examine these other manuals to discover in what respects, if any, they were original, and to what extent their use would result in prices differing from those arising from the use of the Container Statistics manuals.

### 1) Hinde & Dauch Manual

On November 2, 1953 Hinde & Dauch increased its prices (Serial 35044 2SPP). At this time it adopted its own manual. This manual is described in the Statement of Evidence as follows:

"171. The tables for the H & D manual, except for a few altered conversion tables, were initially photographs of tables in the CONTAINER STATISTICS pricing manual,



modified by typed strips of paper bearing the HINDE & DAUCH name, substitute headings and symbols (Evidence pp.339-42). The original form of the modified manual is in evidence as Serials 24880-25054 2HDT. Later, the manual was reproduced in printed form with the HINDE & DAUCH letterhead on the top of each table (Serials 29374-518 3HDT).

172. A comparison of the altered conversion tables for 175# test and 200# test standard slotted containers in the H & D manual, with the corresponding tables in the CONTAINER STATISTICS manual, shows that for containers ranging in area from about 3,500 square feet to about 25,000 square feet per M containers, the variations (up or down) in the factors between the tables are within 25 cents per thousand containers (Schedules VII and VIII in Appendix II). Variations in the higher areas, that is, from 25,000 square feet to 99,000 square feet, range upwards from 20 cents to \$7.60 per thousand containers. According to a check made of the price sheets obtained from the company, the containers most commonly produced by the company fall within an area range of from about 3,000 square feet to about 18,000 square feet per thousand containers (Schedule IX in Appendix II). The major part of the company's production of paperboard shipping containers is made up, according to the evidence of Mr. Baird (p.400), of 175# test and 200# test containers. As no change was made in the regular mark-up of 5 per cent (Serials 24888 2HDT, Evidence p. 412), it is apparent from the foregoing and from the sample price calculations shown below that, in so far as the general run of containers is concerned, the prices calculated through the H & D manual could only vary by a few cents per thousand containers from those calculated through the CONTAINER STATISTICS price manual. These price calculations are before addition of uniform machine charges.

. . . "

(Statement of Evidence, Vol.III, pp.613-14)

A comparison was made of the pricing factors (material, conversion, closure, and printing, but excluding uniform machine charges) used by the Container Statistics manual and the Hinde & Dauch manual for 12 designs of box using from 4,750 square feet to 21,924 square feet per 1,000 containers. The prices resulting from the use of the Hinde & Dauch manual may be compared with those obtained from using the Container Statistics manual as follows, per 1,000 containers:

Two were the same;

Six were from 5 to 15 cents more;

Four were from 15 to 20 cents less.

Mr. Palm of Hinde & Dauch, questioned regarding the use of the company's own manual, testified as follows:

"Q. How long was this in use?

A. I guess it was in use actually about a year.

Q. And at that time when it was in use did you have any reports as to the effect that it had?

A. We have the cost data that was developed during that time, yes.

Q. And did you have any reports about the effect it had on your competitive picture?

A. Yes.

Q. What were they?

A. We were non-competitive in some of the big boxes we were selling and we had to meet competition when we were applying these methods.

Q. And what about the effect on the smaller sizes?

A. I haven't any specific examples there that I could cite to you but I imagine the same thing would be applicable -- I do know that there were certain instances where we were able to develop some business in the smaller sizes that we didn't have before."

(Evidence pp. 6568-69)

Mr. Baird of Hinde & Dauch was questioned on these matters. Although most of his evidence is inconclusive, the following excerpt makes the rest of it unnecessary by indicating succinctly the effect of the use of the company's manual (or rather, the lack of effect):

"Q. Have you observed from the actual business of your company that this change in the manual has altered the character of your business in any important way?

A. I wouldn't say so."

(Evidence, p. 546)

(b) The Bennington Manual

In June, 1954 Martin Paper terminated its arrangements with Container Statistics and proceeded to use a manual of its own devising for the pricing of a portion of its business. On this matter the Statement of Evidence says:

"246. . . . In the summer of 1955 the company discontinued calculating prices through the CONTAINER STATISTICS pricing manual and began to use a manual prepared by Mr. Bennington, the cost accountant at the head office in St. Boniface (Evidence pp. 3721-2). The idea of this manual was conceived by F.H. Brown (Evidence p. 3688) after the acquisition of the company by Powell River Company Limited. His evidence was to the effect that he had arranged for a cost system to be developed and installed by Mr. Bennington after he had examined the CONTAINER STATISTICS manual and found that it could not be used for purposes of cost analysis and cost control (Evidence pp. 3683-3733). He indicated that the manual produced by Mr. Bennington was part of the job costing system the latter had developed (Evidence pp. 3693-5) and that the mark-up structure used with it 'would be developed by the management at the plants and the sales manager at the plants' (Evidence pp. 3732-3). A schedule of mark-up percentages varying according to the style and test of container was used with the Bennington manual, and the resulting prices were different from those which developed through the CONTAINER STATISTICS manual and the current mark-up (Evidence pp. 3102-4; Exhibit 48). Mr. McCullough in his evidence stated that, when the Bennington manual was taken into use, the prices which had already been calculated through the CONTAINER STATISTICS manual remained in effect. Only prices for new orders were calculated through the Bennington manual (Evidence p. 2932). Mr. Beech in his evidence indicated that once the Bennington manual was adopted at the Calgary plant, all prices were calculated through it (Evidence pp. 3245-6)."

(Statement of Evidence, Vol. III, p. 683)

(c) Manual of Pembroke Shook Mills

The influence of the Container Statistics manual on the pricing policies of a company which was never at any time associated with Container Statistics or F.C. Hayes is shown in the manual developed and used by Pembroke Shook Mills. The Statement of Evidence says:

"300. The return of Pembroke Shook Mills Limited included a Ready Reckoner used for purposes of pricing and this was in large measure that of CONTAINER STATISTICS.

The material tables issued by CONTAINER STATISTICS were not included and the company's own figures for material components are slightly below the CONTAINER STATISTICS figures for single-wall boxes and significantly lower on double-wall boxes. The conversion and other tables were nearly all put out by CONTAINER STATISTICS and they include revisions made in 1954 and 1956. The company's return states that it is not a party to any agreements, contracts or arrangements with CONTAINER STATISTICS and/or F.C. Hayes, and Mr. Hayes's return of information records no payments by Pembroke Shook Mills Limited. In explanation of the use of the manual the company's return states, in part:

'The Company, in connection with the estimating of prices for corrugated shipping containers, in or about the year 1957 made use of its own ready reckoner which was based substantially upon a ready reckoner which I believe to have been originally issued by Container Statistics Limited. In the month of March, 1954, the Company employed as Sales Manager of its newly-established corrugated business Mr. J. R. Loney, and he possessed and brought with him the ready reckoner which I believe to have been issued by Container Statistics Limited. The Company generally tested the material cost figures in Mr. Loney's ready reckoner and found that they were sufficiently accurate for the Company's own material costs. The Company also generally tested the conversion cost figures in Mr. Loney's ready reckoner and found that they were sufficiently accurate for the Company's own conversion costs. The material cost figures and conversion cost figures from Mr. Loney's ready reckoner were adjusted and supplemented in those instances where the Company deemed it necessary to do so for accuracy in its own business. By 1957 the material cost figures in the Company's own ready reckoner were substantially the Company's own figures rather than the figures in Mr. Loney's ready reckoner. Mr. Loney left the employ of the Company on December 31, 1955, and took with him his own ready reckoner. The Company continued to use its own ready reckoner and has used the same down to the date hereof.

. . .

Nothing was paid by the Company to anyone for or in connection with the ready reckoner possessed by Mr. Loney as aforesaid. Nothing was paid by

the Company to anyone to acquire the Company's own ready reckoner apart from the Company's own costs of compiling the same.

In December of 1957 the Company received in the mail from an unknown source some sheets which appeared to be revisions dated 1956 for Mr. Loney's ready reckoner, such sheets being entirely unsolicited by the Company. In December of 1958 the Company received in the mail from an unknown source some sheets which appeared to be revisions dated 1958 for Mr. Loney's ready reckoner, such sheets being entirely unsolicited by the Company. ' "

(Statement of Evidence, Vol. IV, pp. 867-6



## CHAPTER VII

### RESTRICTIONS IN THE BOARD MARKET

#### 1. Eastern Canada

In this section certain aspects of the sales policies of three of the Eastern board firms (Hinde & Dauch, Bathurst and St. Lawrence) will be examined for their implications for market structure and performance. This section will examine these companies' sales contracts where such contracts were in force, as well as other features of their sales policies. An examination is made also of an organized exchange of statistical material between certain board companies.

##### (a) Contracts and Practices of Bathurst

Bathurst's Return of Information included copies of its sales contracts with Shipping Containers, Kraft Containers, Hygrade, Martin Paper and Wilson (Exhibit 82). But paragraph 14 of an affidavit, part of Exhibit 82, said:

" . . .

It is not Bathurst's general policy to supply its products on a contract basis and save for the foregoing all of Bathurst's sales are made in the ordinary course of business by verbal discussions, correspondence and purchase orders. "

Nevertheless, the contracts covered about 90 per cent of Bathurst's total shipments of board, e.g., shipments to these five customers accounted for 63.51 of a total of 69.43 thousand tons in 1947; 76.43 of a total of 84.21 thousand tons in 1950; and 83.73 of a total of 94.92 thousand tons in 1954 (Exhibit 82). The record was approximately the same for the intervening years.

The contracts with Martin Paper, Wilson and Shipping Containers had clauses which specified the quantities or the upper and lower limits of the quantities which were to be sold, but provided

that Bathurst might, at its option, supply any kraft liner requirements of the buyer in excess of the stated maximum. The 1940 contract with Martin Paper provided for the purchase by the latter of "The requirements of the Buyer of Kraft Liner now estimated to be 1800 tons of 2,000 pounds each, but the Seller may supply at its option any Kraft Liner requirements of the Buyer in excess of 1800 tons, . . ." (Exhibit D to Exhibit 82). Bathurst's letter to Martin Paper of November 12, 1940, by which the existing contract was revised, provided that the quantity to be purchased by Martin Paper was approximately 82 per cent of the buyer's requirements, which requirements were estimated to be 8,400 tons per annum. It was agreed that Bathurst should have the option of supplying 82 per cent of any requirements in excess of 8,400 tons. It was also agreed that if Martin Paper were obliged to reduce its requirements, owing to lack of orders, it would nevertheless continue to place orders for kraft liner with Bathurst on the basis of 82 per cent of its requirements (Exhibit D to Exhibit 82). The contract with Shipping Containers specified "95% of the requirements of the Buyer of Kraft Liner", stated the estimated present limits of those requirements, and provided that Bathurst might at its option supply any of the buyer's requirements above the higher figure of 15,500 tons per year. The contracts with Hygrade and Kraft Containers differed from the others in that they provided ". . . the Seller and Buyer may hereafter by mutual agreement in writing increase the estimated requirements during the period of this contract. . . ."

All these contracts had attached to them conditions of sale which provided for sale on consignment to the buyers.

The price at which board was to be sold was to be "the Standard list price F.O.B. Buyer's siding, as fixed from time to time by the Seller", but this was subject to the proviso that bona fide offers at lower prices by other suppliers had to be met by Bathurst; failure of Bathurst to do so gave the buyer the right to purchase elsewhere and to deduct such quantities from those to be bought from Bathurst.

The pricing clauses eliminated the possibility of a customer acquiring stocks of board at a previously existing lower price at the time of an announcement of a price increase by Bathurst, except to the extent of 1/12 of the buyer's purchases of board from Bathurst during the 12 months prior to the effective date of the price increase. This concession had been cancelled by agreements between Bathurst and the five buyers individually by the end of 1947.

A memorandum of agreement between Bathurst and Wilson dated December 21, 1954 guaranteed to Bathurst an invariable share of Wilson's total purchases of board, should Wilson reduce its total consumption of board below the average rate of usage of the 26 weeks prior to the date of giving notice. The memorandum provided that if Wilson reduced its rate of usage of board, the reduction in the quantities sold by Bathurst to Wilson was to be only in the same proportion as the reduction in Wilson's rate of usage of board, and not in greater proportion than the reduction in quantity accepted by Wilson from any individual supplier of board. This memorandum also

effect guaranteed Wilson a fixed share of Bathurst's total delivery board. It provided that in event Bathurst was forced to curtail delivery to all its customers, the reduction of sales to Wilson should be reduced "only in the same proportion as the delivery of Standard board by the Seller to all its customers is so reduced, and in no case a greater proportion than delivery to any individual customer is reduced".

The contracts with Kraft Containers and Hygrade differed from the others in providing that in the event Bathurst failed to allocate proportionately to the buyer and to its other contract customers, or if Bathurst failed to maintain consignment stocks so as to meet the buyer's usual normal requirements, the buyer would then have the right to buy elsewhere.

Mr. Cockerill testified that these contracts were intended to be exclusive dealing contracts:

"Q. Mr. Cockerill, I show you Serial Nos. 15233 to 15240 BAM, which are the Minutes of the Coordination Committee Meeting at Bathurst on March 24, 1953 . . . . page 4,

'11. Nestle's Export Orders . . . . -

S.C.'s sales manager had heard that Hygrade intended to maintain a supplier in the U. S. to enable them specifically to go after Canadian exporters' business, and by this method of importing paper, to give their customer, such as Nestle's a "drawback" on the duty. In the case of two carloads, Nestle's were able to save \$650. G.T.C. stated that he understood that the Nestle's order was not entirely obtained on rebate as they had apparently promised Hygrade an order for some time. If they go on granting this rebate only until their present supply of U.S. board is used up, then their Sales Department should drop this line of "sales talk". If they go on importing U.S. board, then so far as S.C. is concerned, this is legitimate competition, but they should not do this in violation of their contract with Bathurst, which covers their "estimated requirements". G.T.C. will take up the matter at the first opportune moment with E. Wilkins'.

I take it, from that reference to these several contracts which refer to Bathurst supplying the estimated requirements of these several customers, that Bathurst was to supply all of their requirements, whatever they might be?

A. Yes, to the extent of our capacity. That was the whole idea from the very beginning -- anyhow, as far as I was concerned, from the very beginning -- and I understand that prior to that, two or three years before my association with the company, we were supplying the full requirements of Hygrade, and each year it was estimated to be so much.

Q. These contracts, in other words, were contracts making Bathurst the exclusive supplier of these particular companies?

A. Yes. There was a qualifying clause in the contract, that in the event of their being able to obtain at a lower price which we were not able to meet they were entitled to purchase accordingly. It is all outlined in their contract. Generally speaking, that is right: we were considering ourselves as suppliers of all their materials."

(Evidence, pp.6753-55)

Mr. R. G. Ivey, President of Hygrade, testified as to difficulties in obtaining adequate supplies of linerboard. He testified also that when Bathurst expanded its production he was unable to get as much of the increased production as Bathurst's subsidiaries (Evidence, pp.5359-60, 5427-29).

The following figures indicate that while Mr. Ivey's assertion is true from time to time within the period 1947-54, it is not true for the period as a whole.

Sales of Board by Bathurst  
( ' 000 tons )

<u>Year</u>	<u>Total</u>	<u>Hygrade</u>	<u>% of Total</u>	<u>Shipping Containers and Kraft Containers</u>
1947	69.43	15.67	22.57	38.59
1948	71.02	15.78	22.22	39.17
1949	74.47	17.25	23.16	42.09
1950	84.21	18.32	21.76	50.93
1951	89.42	20.57	23.00	56.01
1952	83.19	16.57	19.92	54.12
1953	95.83	26.51	27.66	54.81
1954	94.92	24.46	25.77	54.36

Source : Exhibit 82

It was true that Bathurst's subsidiaries' shares rose from 1949 to 1950 while Hygrade's declined. The same is true from 1951 to 1952 and from 1953 to 1954. But, on the other hand, the reverse is true from 1952 to 1953 and to a pronounced degree: the gain of 7.74 points in Hygrade's share was accompanied by a loss of 7.86 points in the share of the subsidiaries of Bathurst. In some years (e.g. 1949 to 1948, 1951 cf. 1950) both Hygrade's and the subsidiaries' shares increased.



In one instance the shares of both groups declined (1948 cf. 1947). Over the whole period 1947-54, the share of Hygrade rose by 3.20 points; that of Bathurst's subsidiaries by 1.69 points.

One must conclude that Hygrade had, over the period as a whole, shared quite well in Bathurst's increasing production, despite the contrary being true from time to time during the period.

b) Gair: No Contracts

Gair's Return of Information stated that it did not have any sales contracts, formal or informal, relating to the supply of containerboard to other container manufacturers in the period 1947-54 (Exhibit 80).

c) St. Lawrence's Contracts and Informal Allocations

St. Lawrence signed a contract with Hinde & Dauch on October 6, 1947, which provided for the supply of board to the latter by the former as follows :

" . . .

During the year 1948 - twelve thousand (12, 000) tons (of two thousand (2, 000) pounds each) and during the year 1949 and during each of the eight (8) succeeding years - fifteen thousand (15, 000) tons (of two thousand (2, 000) pounds each); provided, however, that, if the Seller's gross production of shipping case materials of standard quality exceeds ninety-two thousand (92, 000) tons (of two thousand (2, 000) pounds each) in any year, then the Seller agrees to sell and deliver to the Buyer and the Buyer agrees to purchase from the Seller, take delivery of and pay for fifty per centum (50%) of such excess during such year but not exceeding two thousand (2, 000) tons during the year 1948, one thousand (1, 000) tons during the year 1949, three thousand (3, 000) tons during the year 1950 and five thousand (5, 000) tons during the year 1951 and during each of the six (6) succeeding years.

. . ."

(Serials A25601-2 2LCM)

By this paragraph Hinde & Dauch was empowered and required, provided St. Lawrence increased its capacity by a sufficient amount, to buy increasing annual quantities of board up to a maximum of 20, 000 tons per year. Shipments by St. Lawrence to Hinde & Dauch rose in 1952 almost to this limit -19, 340 tons - but thereafter declined. Nevertheless they amounted to 15, 620 tons in 1954 as compared with only



7,500 tons in 1947 - an increase of over 100 per cent.

Paragraph 2 of the contract provided that the Trade Customs should govern:

" . . .

2. The Trade Customs with respect to 'Container Board Grades for the Manufacture of Shipping Cases', including kraft liner board and kraft corrugating board, as generally adopted by the Paperboard Industry in Canada from time to time during the term of this Agreement shall, except insofar as the same may be inconsistent with any other provisions of this Agreement, govern the respective rights and obligations of the Parties hereto under this Agreement.

It is understood that such Trade Customs with respect to Container Board Grades for the Manufacture of Shipping Cases generally as such Trade Customs presently exist are as appear under the heading 'B - Container Board Grades for the Manufacture of Shipping Cases', and under the sub-headings 'Conditions of Sale', 'Orders', 'Delivery', 'Claims', 'Tolerances', 'Standard Grades', 'Standard Colours', 'Standard Tests', 'Gauge List No. 8', 'Gauge List No. 9', 'Gauge List No. 10' in a pamphlet compiled by the Canadian Pulp and Paper Association and bearing date August 1, 1946, a copy of which pamphlet is hereto attached marked Schedule '1', and initialled by the Parties hereto for the purposes of identification but the Parties hereto recognize that such Trade Customs may from time to time be amended or replaced by the Paperboard Industry in Canada and in such event such Trade Customs as so amended or the Trade Customs so replacing the same from time to time shall govern the respective rights and obligations of the parties hereto under this Agreement, provided such amendments or replacements are agreed to by the Parties hereto.

. . . "

(Serials A25602-03 2LCM )

Paragraphs 5 and 7 provided that on the one hand Hinde & Dauch should receive a fixed percentage of all St. Lawrence's sales of board in event that the latter had to reduce its total sales; and on the other hand that St. Lawrence should receive a fixed percentage of Hinde & Dauch's total purchases in case the latter was forced to reduce its total purchases of board.

Paragraph 4 effectively prevented St. Lawrence from

pursuing an independent pricing policy on shipments under this contract. It provided that the prices shall be those "generally prevailing at the time of delivery of each such quantity with respect to the majority (over 50%) of the aggregate tonnage of all standard container board grades" shipped into Manitoba and provinces east of it by mills east of Fort William. The reference is to all grades of board, both jute and kraft. Because of the fact that no one mill held over 50 per cent of the total sales in this area, prices under this contract could not be set with reference to the price list of any one board manufacturer. Over 50 per cent could come only from looking at total tonnages from some two of the following : Hinde & Dauch, St. Lawrence and Bathurst. (Gair did not ship enough that, in combination with any other mill, it could supply over 50% of the stated total. Minas Basin, Strathcona, Abitibi, and Anglo-Canadian, after their respective entries into the market, were likewise too small to enter into the calculations.) Furthermore, the clause is meaningless unless an identity of prices of some two producers is assumed. This means that either the prices of Hinde & Dauch and St. Lawrence must be the same, or those of Hinde & Dauch and Bathurst, or those of Bathurst and St. Lawrence. Two of these possibilities out of three indicates an identity of kraft and jute prices. It might be thought that this does not demonstrate conclusively any necessary identity of kraft and jute prices, for the third possibility, identity of kraft prices of Bathurst and St. Lawrence, remains. But, although thought of as a kraft mill, St. Lawrence (or Brompton) continued to manufacture and ship jute linerboard throughout the period 1947-54 (Return of Information, Exhibit 74). Clearly, identity of jute and kraft prices was required by the terms of the contract.

There is evidence to show that from 1946 to the end of 1951 St. Lawrence had a sales contract with Canadian Wirebound, although this document is not in evidence. There are references to such a contract in the following excerpts which describe St. Lawrence's methods of allocating tonnage to its customers.

The first of these extracts is from a letter written by Mr. R. C. Godden to a director of St. Lawrence on January 18, 1951 :

" . . . When making our allocations for the Industry we have always felt it wise, based on past performance, to protect our company against further shutdowns and loss of time by committing ourselves for a greater amount of tonnage than our estimated

production represented, as it has been our repeated experience that the Corrugators as a whole have very seldom taken all of the tonnage that they requested at the beginning of each year. In other years it has been our policy to protect ourselves against this situation by having export tonnage which acted as a cushion. As you know, in 1949 and 1950, the export tonnage virtually disappeared from the market and as we were robbed of this cushion we had to protect ourselves in the way mentioned.

. . .

As I told you this morning, it has been the practice for many years to discuss with each of our corrugating customers at the beginning of each year the tonnage which they feel they will require during the following year and these tonnage figures have always been borne in mind when allocations were set up for this market, even at times when business was not as good as it has been in the last year. This was done in the past to enable us to arrive at an amount that could be offered in the export market. I mention this point to emphasize the fact that while the understandings arrived at between firms in these discussions were given every consideration, it was never regarded as a definite commitment and with very few exceptions have any of the Corrugators taken the full amount of tonnage which they asked us to reserve for them. I need only refer you to the years 1948 and 1949, in which years we had a firm contract with Canadian Wirebound and in neither of those years did they live up to the tonnage which was set out in the contract and I might add that even this was not discussed.

In the past the Mills and Corrugators have always succeeded in working out their problems together and it is very unfortunate that the present situation has arisen and it would be most regrettable if we had to resort to contracts which are binding on both parties, rather than depend on an understanding that promises are made in good faith, in the hope of being able to live up to them. Should a step of this nature be necessary it would indeed destroy a great deal of the trust and understanding of our mutual problems which has existed between us. "

(Serials A25518-19 2LCM)

The second excerpt is from a letter written by President Dunn of Canadian Wirebound to the President of St. Lawrence, Mr. P. M. Fox, on August 3, 1951. After mentioning that his Toronto and Montreal plants were experiencing severe shortages of board, and that this situation was placing the company in an awkward position with its customers, Mr. Dunn wrote :

" . . .

We have continued to expand our plant facilities and improve our production at both plants for corrugated containers. We are now in a very good position of increasing our production when board materials are available. Our present contract with your company is dated from January 1st, 1946 and expires at the end of this year. For the years 1950 and 1951 the contract provides for 18,000 tons for each of these years with a provision that the quantities may be increased as agreed to by both parties. For the year 1950 we asked for an allotment of 30,000 tons and we were given an allotment of 23,000 tons. For the year 1951 we asked for an allotment of 30,000 tons and we were given an allotment of 22,000 tons.

Prior to this contract we were informed that we were receiving 30% of your production of board materials. Since then we are aware that you have greatly increased your production of these materials. From your Annual Report for the year 1950, it would appear that we have only received 22% of your production. This is quite a heavy drop from the percentage we formerly were receiving from you.

During the past seven years we have made very heavy capital expenditures in our corrugated division at our both plants. We have increased our production capacity and have made great improvements in the efficiency of our operations. Our production has not kept pace with the capital expenditures we have made. This is due to shortage of board materials. It would appear that had we continued to receive the 30% basis of your production, we would have obtained a minimum of at least 30,000 tons a year.

. . . "

(Serials A25541-43 2LCM)

He went on to say that the shortage of board was holding up the production of a new container, "Cleated Corrugated" and declared that:

" . . .

. . . It would appear that the corrugated industry is short of board materials on an annual basis of approximately 150,000 tons, per year. This would be a good output for at least two new board plants which could produce kraft board materials.

. . . "

(Serials A25541-43 2LCM)



The following table shows St. Lawrence's shipments in thousands of tons to its four principal customers in the years 1947-54 inclusive:

	<u>CDN. WIREBOUND</u>	<u>HINDE &amp; DAUCH</u>	<u>DOM. CONTAINERS</u>	<u>GAIR</u>
1947	17.53	7.50	14.04	9.09
1948	17.46	12.22	13.00	9.36
1949	17.91	14.48	16.14	9.67
1950	21.83	17.54	17.47	12.47
1951	21.98	17.03	17.91	12.48
1952	20.32	19.34	18.66	12.11
1953	20.60	18.84	17.90	11.48
1954	19.25	15.62	18.12	7.55

Source : Returns of Information

The outstanding feature of this table is the 100 per cent increase in sales to Hinde & Dauch, an increase unmatched in sales to any of St. Lawrence's other three principal customers. Although shipments to Canadian Wirebound increased from 1947 to 1954, the increase was much smaller than that in shipments to Hinde & Dauch.

This evidence tends to support the view that St. Lawrence, in making a contract with Hinde & Dauch which required St. Lawrence to increase greatly its shipments to the former, and in failing to expand sales to Canadian Wirebound proportionately, was supporting its large, integrated competitor at the expense of independent converters. On the other hand, figures of sales to the other two companies support the opposite view: while sales to Dominion Containers rose by about 4,000 tons from 1947-54, those to Gair fell by 1,540 tons despite higher figures in some of the intervening years. Furthermore, in 1954 Canadian Wirebound was still receiving more board from St. Lawrence than any other of the latter's customers. Thus this evidence indicates no settled policy in this regard.

Mr. R. E. Diven of Canadian Wirebound testified that there was an acute shortage of paperboard in the years 1951-54, that his company had attempted to get more board from its suppliers but failed, and that he did not feel he was getting his share of the available supplies (Evidence pp.1189-91).

Mr. A. M. Dunn of Canadian Wirebound testified that there was a shortage of board throughout the whole of the post-war period up to the end of 1954. He agreed that after 1954 "things straightened themselves out" (Evidence, p.5701).



It should be borne in mind that the years 1950 and 1951 were years in which the Korean War occurred and when, according to a letter from Mr. Dunn to the President of St. Lawrence the demand situation was as follows:

" . . .

The demand for corrugated containers has greatly increased since the time we discussed this matter for further increased production of linerboard. The situation has been seriously aggravated by the tremendous demands of the Department of National Defence for packaging war materials and supplies in corrugated cartons.

. . . "

(Serials A25541-43 2LCM)

Again, some evidence suggests that 1948 and 1949 were years when Canadian Wirebound did not experience serious shortages of board, for it did not take up all the tonnage specified in its contract with St. Lawrence (See extract from Serials A25518-19 2 LCM quoted earlier in this section).

When Bathurst bought Canadian Wirebound in 1954 it had no surplus board to supply its new subsidiary. Bathurst therefore entered into a contract with St. Lawrence whereby the latter undertook to supply board to Canadian Wirebound (Serials A25590-600 2LCM). The contract was dated January 1, 1955 and bears a strong resemblance to St. Lawrence's contract with Hinde & Dauch discussed earlier in this section. Clause 3 provided for sale of 24, 000 tons in 1955 plus an annual increment of 6 per cent of the contracted tonnage for the immediately preceding year. Clauses 6 and 7 contained provisions tending to keep constant St. Lawrence's proportionate share of purchases for Wirebound as well as to maintain on a proportionate level the shares of the container market held on the one hand by Wirebound and on the other by St. Lawrence's other customers in so far as both were supplied by St. Lawrence. The contract resembled that between St. Lawrence and Hinde & Dauch also in specifying that the Trade Customs should govern the specifications of the board (Clause 4), while Clause 8 in effect meant that St. Lawrence's prices to Bathurst had to be the same as those of either Hinde & Dauch or Bathurst. The term of the contract was as follows:

" . . .

TERM :

15. This agreement shall be and remain effective from and

including the 1st day of January, 1955, up to and including the 31st day of December, 1958, and shall continue thereafter until terminated as hereinafter provided.

Either Party may terminate this Agreement on the said 31st day of December, 1958, or on the 31st day of December in any year thereafter, provided, however, that notice of such Party's intention to so terminate the same shall be given to the other Party at least thirty (30) calendar months prior to the date upon which such termination is to become effective.

. . ."

(Serials A25598-99 2LCM)

The Statement of Evidence comments as follows:

"85. As of April 4, 1957, when Mr. Weldon was giving evidence, no notice of termination of the contract had yet been given (Evidence, p.6938), so that its minimum effective life was five years, subject to automatic annual renewal unless 30 months' notice of termination should be given . . . ."

(Statement of Evidence, Vol.IV, p.746)

(d) Hinde & Dauch's Selling Practices

Hinde & Dauch's Return of Information stated that the company had only one informal contract dealing with the supplying of containerboard to converters and that this was with Corrugated Paper Box (Exhibit 76).

During the period 1947-54 Hinde & Dauch's total shipments of board (including those to its own converting plants), although they rose slightly during some of the intervening years, were considerably lower in 1954 than in 1947:

<u>Year</u>	<u>'000 tons</u>
1947	71.98
1948	71.02
1949	69.06
1950	72.87
1951	74.16
1952	67.28
1953	70.75
1954	59.69

Source: Return of Information

The company's share of total shipments of containerboard by all companies fell from 29.70 per cent in 1947 to 17.71 per cent in 1952 (Table 2, Chapter I). During this period, however, Hinde & Dauch's share of the total container market remained approximately constant (Table 8, Chapter I). Hinde & Dauch accomplished this by: (a) securing growing supplies of kraft board from St. Lawrence, as discussed in a previous section of this chapter; (b) reducing or cutting off entirely its shipments of board to independent converters. The latter action is revealed in statistics of shipments to independent converters and is the subject of a number of letters which are in evidence.

Hinde & Dauch's deliberate and conscious policy of withdrawing supplies from its board customers is shown in this excerpt from a letter of Mr. M. H. McArthur to the President of Wilson on February 13, 1948:

" . . .

In connection with the matter of straw and .016 liner, you no doubt appreciate that effective the first of the year we withdrew 25% of the liner and straw we previously supplied to our competitor customers and, effective the first of April, an additional 25% will be withdrawn. We plan to take a look at the situation at that time when we will decide to what extent we shall deal with the balance of the tonnage that has been available to our mill customers. We are doing this, in the main at least, to build up a position in Western Ontario where we are now constructing a new plant. Therefore, it is with regret that we must inform you we will have no available straw or liner for sale.

In other words, we have a very definite change in policy from this point on. Namely, we plan to fabricate more of our own materials.

. . ."

(Serials 21932-33 WBF)

Sales to Wilson ceased after 1949.

Hinde & Dauch reduced supplies to Maritime, as revealed in a memorandum of June 14, 1948, written by Mr. C. W. Stairs of Maritime:

"(1) On Wednesday, January the 14th, we were advised by telephone by Mr. Hyland, of Hinde & Dauch, that whereas they have been supplying us for the last several years with

approximately 44 tons of jute liner board per week, and 30 tons of straw board per week, as and from January 1st, 1948, it was their intention to cut the quantity of jute board to 33 tons per week until April the 1st, 1948, at which time they would make a further cut to 24 tons per week. They could give us no definite assurance about the quantities of straw board, but felt that for the time being they could continue to supply the normal amount.

(2) The above, of course, would create a very serious situation, because it would be impossible to carry on with as small a supply of raw material as indicated, . . .

. . .

(Serials A30454-56 2MPH)

Mr. Stairs's efforts to find alternative supplies from several other Canadian board manufacturers had been unsuccessful. This is shown in a letter from Mr. Stairs to Mr. R. Lawson, February 23, 1948

"I have just completed a very interesting visit to a number of the paper box manufacturers in Montreal and Toronto and was most happily received by every one of them. I had hoped to see you, but knew that you had not returned from the South.

. . . I had an interesting talk with Mr. Winchell, Mr. Lloyd and Mr. MacArthur. I later called on Mr. George Brown of the G Company, and Mr. F. C. Hayes, who told me about his new 'Container Statistics Limited'. He has sent me a copy of his contract and suggests that Maritime Paper Products Limited join his organization. I will want to think this over and talk it over with Jim and Mack Dunkin before I reply to him.

In Montreal I had a very nice chat with Mr. R. L. Weldon of Bathurst, Mr. Wilson of Brompton, Mr. Hobart of Consolidated and Harold Crabtree of Frasers. Out of all these conversations, I gathered one very definite fact - and that is there is a tremendous shortage of liner board in the industry as a whole. Mr. Winchell did indicate to me that he would do his best to maintain the volume we have been getting, but suggested that if we could get an increased volume from other sources, he would be glad to be relieved of part of his commitment. This I found to be impossible and am going to write him along these lines today. Mr. Weldon of Bathurst, has promised to continue supplying us with an equal quantity to last year's shipments, but will not give any promise of increasing it.

The Gair Company, Brompton and Consolidated gave me no promise of any supplies.

. . . "

(Serials A30452-53 2MPH)

On April 17, 1948 Mr. Dunkin reported to Mr. Stairs:

" . . .

Due to a very unfavourable inventory position, it is necessary to now curtail production, . . .

As we are nearing the busiest part of our year (June, July, August and September) it seems apparent that, if we are to properly look after our key accounts, we must acquire a more sizable Test Liner inventory. As it seems impossible to obtain more paper from our different sources of supply than was shipped to us last year, we are now operating our corrugating machine only about two-thirds of its regularly scheduled time. This is an expensive plan, but, under the circumstances, there seems to be no alternative way in which we can protect our large accounts against inconvenience which might otherwise result, due to lack of packing cases, in their heavy production period."

(Serials A30450-51 2MPH)

Fruitless efforts were made to get supplies from St. Lawrence (Serials A26130-31 LCO, A26161 LCO, A26159 LCO). The following quotation from the Statement of Evidence indicates the sources from which Maritime finally secured supplies:

"57. MARITIME was eventually able to obtain supplies to replace those formerly supplied by HINDE & DAUCH and thereby to maintain its position in the market for shipping containers. MINAS BASIN acquired a second-hand three-cylinder machine sometime after the war and by adding three cylinders and improving their refining capacity were able to begin the manufacture of boxboard grades of paperboard by the latter part of 1948. In 1949 they supplied jute liner to MARITIME to the extent of 650 tons, and in the following year became MARITIME's chief supplier, shipping 3,160 tons. They remained the chief supplier throughout



the period for which figures were collected (to 1954). However, MINAS BASIN produced only .016 (.014 after 1954) jute liner. The figures referred to come from MARITIME's return of information (Exhibit 66), and Mr. Jodrey's evidence (pp.4122 et seq.) provides the remaining information. From Mr. Jodrey's evidence it would also appear that the board operations of MINAS BASIN were far from efficient and profitable. For supplies other than jute liner, MARITIME received slightly increasing tonnages from BATHURST in each year, and from 1950 on got important quantities of corrugating material from STRATHCONA, and inconsequential tonnages of board from NORTHEASTERN (ANGLO-CANADIAN) and U. S. mills. Mr. Dunkin did not like the quality of the STRATHCONA product, and had to pay more than prevailing prices to NORTHEASTERN (Evidence pp.4278-81). "

(Statement of Evidence, Vol. IV, p.731)

Hinde & Dauch also reduced its shipments to Corrugated Paper Box and the latter's subsidiary, Hilton, to a very serious extent as shown below:

		<u>'000 tons</u>					
		<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>
CORRUGATED PAPER							
	BOX	9.18	6.89	7.51	7.00	6.43	4.71
HILTON		<u>5.27</u>	<u>3.60</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>14.45</u>	<u>10.49</u>	<u>7.51</u>	<u>7.00</u>	<u>6.43</u>	<u>4.71</u>

Source: Returns of Information

Despite increases in shipments from St. Lawrence and Gambia and the import of some board, Corrugated Paper Box's share of the market for shipping containers declined sharply. The Statement of Evidence says:

"60. . . . The statistics establish that CORRUGATED PAPER BOX's position in the market for containers in the Central Province declined relatively more than any other company, falling from 5 per cent in 1949 to 3.36 per cent in 1951, and the best position it

achieved thereafter was 3.97 per cent in 1953. It was the only manufacturer in Canada whose dollar sales declined in the peak year of 1951. HILTON had had over 35 per cent of the Prairies market in each of the years 1948-50 inclusive, when it fell to an average of about 33 per cent for the next three years."

(Statement of Evidence, Vol.IV, p.735)

Hinde & Dauch reduced its shipments to Hendershot and Martin-Hewitt also (Return of Information, Exhibit 76).

In short, it appears that at no time in the period 1947-54 could an independent corrugator shop around between alternative suppliers of board with any assurance that if he were refused supplies by one board manufacturer he could make up his requirements by applying to another. Those container makers who entered into tightly-drawn sales contracts with board producers were able to obtain more adequate and assured supplies of board than those who did not. In so doing they largely or completely abdicated their rights to shop around for supplies.

The inadequacy of board supplies in the early fifties was relieved by the entry into the manufacture of board of several smaller suppliers (Minas Basin, Strathcona, et al.). Had it not been for such entries into the board industry the deleterious effects upon the independent container manufacturers might have been far more pronounced.

(e) Equality of Bathurst's and St. Lawrence's Board Sales

One of the more remarkable features of the kraft board market was the high degree of stability in the shares of St. Lawrence and Bathurst. The following statistics drawn, not from Returns of Information, but from documents seized in the course of the inquiry, and originating with either Hardy & Badden, formerly Secretary of the S. C. M. M. A., or the Canadian Pulp and Paper Association, illustrate this:

Table 22

PULP MILLS:

TOTAL SALES OF ALL SHIPPING CASE MATERIALS, 1937-54

	Bathurst		St. Lawrence (Brompton)		Totals
	Tons	%	Tons	%	
1937	28040	56.5	21548	43.5	49588
1938	23040	54.5	19214	45.5	42254
1939	26183	47.5	28975	52.5	55158
1940	26820	48.1	28889	51.9	55709
1941	41447	51.1	39678	48.9	81125
1942	39407	47.1	44335	52.9	83742
1943	41478	48.2	44523	51.8	86001
7 years cumulative	226415	49.9	227162	50.1	453577
1944	63445	56.9	48099	43.1	111544
1945	70522	60.7	45610	39.3	116132
1946	77848	49.8	78385	50.2	156233
1947	75470	46.0	88553	54.0	164023
1948	79347	46.2	92300	53.8	171647
1949	79012	46.1	92343	53.9	171355
1950	88981	47.9	96675	52.1	185656
1951	94848	49.9	95092	50.1	189940
1952	87168	47.8	95278	52.2	182446
1953	100377	52.1	92321	47.9	192698
1954	105443	54.3	88579	45.7	194022
18 years cumulative	1148876	50.2	1140397	49.8	2289273

Source:

For years 1937-43 inclusive - Serial A25979 LCO  
thereafter: Serials A18114 4HDT, A18116 4HDT,  
A26274 LCO, A26276 LCO, A26278 LCO,  
A26280 LCO, A26282 LCO, A25489 2LCM,  
A25491 2LCM, A25495 2LCM, A25493 2LCM.

These statistics show that over an 18-year period these two companies' shipments (both to domestic and to foreign customers) were, cumulatively, almost exactly equal. If the series is broken at the end of 1943, the shares are again almost exactly equal. The shares vary of course, from year to year, in particular years varying some distance away from equality. But it is noticeable that a period in which the share of one of the two firms exceeds the 50 per cent figure is followed by a period in which its share dips below that percentage.

The figures contained in the two firms' Return of Information give practically the same results for the period for which a comparison can be made (1947-54). From Table 22 it can be calculated that, cumulatively, for the period 1947-54 inclusive, the shares of the two companies were: Bathurst - 48.95 per cent; St. Lawrence - 51.05 per cent. The figures from the Returns of Information are as follows:

Table 23

<u>Total Shipments (Domestic and Export)</u> <u>of Shipping Case Materials, Bathurst</u> <u>and St. Lawrence, 1947-54</u>					
Year	Bathurst ( '000 tons)	%	St. Lawrence ( '000 tons)	%	Total ( '000 tons )
1947	71.80	47.13	80.56	52.87	152.36
1948	78.59	46.69	89.74	53.31	168.33
1949	78.74	46.69	89.92	53.31	168.66
1950	87.43	47.78	95.55	52.22	182.98
1951	92.89	49.42	95.06	50.58	187.95
1952	84.37	46.94	95.36	53.06	179.73
1953	96.48	51.09	92.35	48.91	188.83
1954	<u>97.41</u>	<u>52.45</u>	<u>88.32</u>	<u>47.55</u>	<u>185.73</u>
Cumulative	687.71	48.62	726.86	51.38	1,414.57

The shipments data obtained by the Commission by way of returns of information permit the continuation of this compilation

for the years 1955-60 inclusive, as follows:

<u>Year</u>	<u>Bathurst</u> ( <u>'000 tons</u> )	<u>%</u>	<u>St. Lawrence</u> ( <u>'000 tons</u> )	<u>%</u>	<u>Total</u> ( <u>'000 t</u> )
1955	122.45	52.33	111.56	47.67	234.0
1956	107.58	46.62	123.20	53.38	230.7
1957	96.94	47.87	105.56	52.13	202.5
1958	91.09	48.20	97.90	51.80	188.9
1959	102.33	50.45	100.49	49.55	202.8
1960	<u>114.15</u>	<u>49.96</u>	<u>114.34</u>	<u>50.04</u>	<u>228.4</u>
6 years cumulative	634.54	49.28	653.05	50.72	1,287.5

There is some evidence suggesting that discussions of their total shipments and their division between export and domestic markets occurred both during and after the period of price control. There is evidence that Bathurst and St. Lawrence discussed between themselves shipments to particular box manufacturers after the end of price control.

On December 4, 1944 Mr. W. H. Palm of Brompton sent a teletype to P. H. Scowen of that company. It will be recalled from figures quoted in Table 22 that the Bathurst and Brompton shares of the market had been approximately equal over the previous seven years. In the teletype the distinction between the minimum shipments allocated by Mr. O'Reilly, the Administrator of Paperboard, and the sharing of the total business in the domestic and export markets should be noted.

"BM 98

P. H. Scowen

I have been giving some thought to the manner in which Bathurst and ourselves should divide markets - domestic and export - and find that it is not going to be an easy matter to decide just how this should be worked out. If we arrange to split 50 - 50 the domestic market which is the basis which O'Reilly has established for minimum shipments for next year, as per the revised paperboard policy, then it automatically follows that the remainder of our respective capacities will go overseas.

The split as between Brompton and Bathurst on the overseas tonnage will thus be proportional to the relationship between the two remainders, assuming both mills run full.



As our programme lines up for 1945 with Brompton being asked to ship a minimum of 44000 tons into the domestic (all grades of shipping case materials) and Bathurst 45, 000 - the former will have available for the overseas market approximately 12000 tons, the latter approximately 27000 tons.

I would judge rather than establish any definite principles for the future in regard to proportions for overseas, we should endeavour to work along with the ultimate aim of a 50 - 50 split all the way round, domestic and overseas and then face the immediate situation on the basis of the manner in which the actual figures fall, after dividing equally the home market.

Therefore, setting up for 1945, and for that year only, we and Bathurst should divide each export market on the basis of approximately 12 to 27.

I expect to have a meeting with Cockerill on Friday to settle this matter and would appreciate your views on the subject.

W.H. Palm "

(Serial A25981 LCO)

Division of sales with Bathurst was the subject of a reply by Mr. Scowen of December 5, 1944, which was as follows :

"EA 95

Mr. W. H. Palm

Re BM 98

I think your decision in this matter is satisfactory - can you advise me the split between Bathurst and Brompton tonnage over the past seven years. I think you told me the other day you had these figures available and if so please teletype them to me.

I think it satisfactory to divide the domestic market fifty fifty - the balance to be proportioned according to production. This could be levelled out later on because we can at any time increase our production at Red Rock. It should be understood, however, between you and Bathurst that it would be inadvisable for them to institute unreasonable increases in productive capacity because we feel that we are also entitled to 50 per cent of export markets, and any disagreement between us on export markets might be equally disastrous as a disagreement respecting domestic markets.

P.H. Scowen"

(Serial A25983 LCO)

Mr. Palm was fully aware of the equal shares of the two companies over the previous seven years. The statistics showing the split are referred to in a teletype from him to Mr. Scowen on December 5, 1944 (Serial A25982 LCO). Statistics fitting the description in the latter teletype were found in the files of St. Lawrence (Serial A25979 LCO). The figures and percentages are identical with those shown in the first eight lines of Table 22 above. Another table showing Brompton's production broken down between jute and kraft, and then reduced to a kraft-equivalent basis, was enclosed (Serial A25980 LCO). Further teletypes dated December 5, 1944 passed between the two men (Serials A 25984-85 LCO). In the last numbered serial addressed to P. H. Scowen, the following appears:

" . . .

Generally speaking I think we can count on selling the bulk of our surplus overseas, although at the moment we are having just a little bit of difficulty in straightening out with the U.K., even for 1945, in that they may not require the amount that we estimate we should have available for them.

This matter is going to be discussed further between Cockerill and myself on Friday of this week.

As you know, Bathurst have been operating on consignment basis right through the picture and have been selling Wirebound a certain amount of board - particularly Montreal - by allocation from the Administrator and whether or not they will withdraw as and when quotas disappear it is too early to state. However, it is conceivable that they might want to continue and would I believe be prepared to put in consignment. I have not discussed this point with Cockerill and prefer to let it rest until we see what may happen.

Basically Bathurst and ourselves will try to work out a method by means of which we split the tonnage in the domestic market in total, but this may involve their selling some of our accounts before the whole situation is shaken out.

. . .

W. H. Palm "

(Serial A25985 LCO)

Several witnesses were examined on these documents.

Mr. G. T. Cockerill of Bathurst denied that there was any agreement between Brompton and Bathurst to split markets and claimed the 50-50 split was pure coincidence (Evidence, pp.5807-08, 5812-13, 5819).

Mr. W. H. Palm of Brompton could not recall having discussed with Mr. Cockerill any splitting of tonnage in the domestic market and did not remember any conscious adjustment to a quota in the years 1937-43. To his recollection there was no quota arrangement. He knew, however, of no technological factor which would bring about such a fine division as was visible in the sales statistics of the two companies (Evidence, pp.6485-87, 6498-99).

Mr. R. L. Weldon denied specifically that there was any agreement or understanding between Bathurst and Brompton that the market should be split 50-50 (Evidence, pp.6825-26). He thought it possible that he discussed the principle of consignment agreements with Brompton. Moreover, he admitted that all the information was available in which the general observance of market positions could be maintained (Evidence, pp.6831-32). He was there referring to the well-organized statistical interchange among the board mills to which further reference will be made below.

On November 21, 1947 Mr. Cockerill of Bathurst wrote the following memorandum to the President:

"Since our preliminary discussions on possible kraft production in 1948 and suitable distribution, I have given further detailed consideration to the matter.

In view of anticipated extensions and the possible availability to us, around 1950, of greatly increased kraft tonnages which would necessitate our participation in export markets, I feel that we should do our best to retain some connection with export markets during 1948 and 1949.

For your consideration, therefore, I am giving you a suggested distribution for 1948, which as you will see is based on an average

daily output of  $270\frac{1}{2}$  tons for 308 days. Total 83314 tons.

Shipping Containers	22000	
Kraft Containers	22000	
Hygrade	17300	
Martin	6900	
Gair	4400	
Wilson	3300	
Maritimes	600	
Corrugated Paper Box	500	
American Can	480	
Paper Mfrs. Sales	300	
Industrial Steel	<u>150</u>	
Total Domestic		77930
United Kingdom	3000	
New Zealand	<u>2400</u>	
Total Export		5400
		Total 83330

If we cannot anticipate a greater average daily production than 260 tons per day or 80080 tons for the year, then the above figures should be reduced by 4% all round.

I understand from Roger Godden that Brompton are planning a total export tonnage of 11000 tons for 1948 which would leave 79000 tons of container grades available for domestic market.

We understand from Paul Cropper that Brompton are allocating 2400 tons to New Zealand. I believe 3000 tons will go to South Africa and that would mean 6000 tons to U.K. as against the 11000 tons they were supposed to be giving U.K. in 1947."

(Serials A27175-76 BAN)

Further evidence of discussion of board allocations between Bathurst and Brompton is included in Section 2 of this chapter dealing with Western Canada.

The Board Section of the Canadian Pulp and Paper Association was an avenue for the exchange of information on capacity. The Statement of Evidence comments on this as follows:

"9. Meetings of the Board Section, C.P.P.A., were always well attended by the representatives of the containerboard mills, frequently including PACIFIC MILLS from May 1949 on, and DRYDEN starting in October 1950. The presence of these two



companies, neither of which are involved in the boxboard business, which is the principal concern of the Board Section, indicates that containerboard matters were dealt with in this forum, even though the subject is rarely mentioned in the minutes of the meetings which they attended.

10. The C.P.P.A. compiled annually a review of production capacities, current and anticipated. Part of such a survey is Serials 25693-5, being Supplement D to Paper and Paperboard Capacity Survey - 1954. This relates capacity operation to actual production and the trend of production projected to the end of 1956, as well as calculating through 1957 the domestic and export requirements and planned capacity in tons. "

(Statement of Evidence, Vol.IV, p.705)

A meeting of the Board Section was held on October 1950. On October 4, 1950 Mr. R. C. Godden of Brompton wrote a memorandum to Mr. E. P. Wilson of Brompton which devoted largely to a review of prospective increases in the boxboard capacities of several Canadian mills, including (among others) Bathurst, Strathcona, Gair, Hinde & Dauch and Anglo-Canadian. There are, however, references to containerboard capacity which are relevant here:

"It was brought up at the last meeting that there is a likelihood of a demand for approximately 10% of the present capacity of Boxboards being required for essentials in connection with the rearmament programme that is just getting started in this country. As a result a cursory review was taken of the present production by Canadian Mills and the possible expansion of their productive facilities for the balance of this year and the year 1951. I thought you would be interested in the following, which came to light as a result of the discussion. Incidentally, these figures are not for publication or quotation and are being given to you and Ralph as a point of interest only and to show you that the Industry is moving ahead and that we had better look to our laurels or we will be losing our position in the Industry.

. . .

On top of this, Bathurst will be increasing their Liner and Corrugating output by 30,000 tons per year, starting December 1950.



. . .

The shipping case field, as you know, is going to be very short of tonnage during 1951, unless there is a major break in general business conditions and in talking to Bathurst, they now feel that the 30,000 tons of extra production will be more than taken up by demands from their own plant and present customers, without having very much - if anything - for the export market. "

(Serials A25514-15 2LCM)

From the foregoing it is clear that during the period of price control Brompton and Bathurst discussed the division of shipments both to export markets and to domestic markets, of those tonnages which exceeded the minimums specified by the Wartime Prices and Trade Board (Serial A25981 LCO). In late 1947 Brompton had informed Bathurst of its intended total shipments to each market during the following year (Serials A27175-77 BAM). In the fall of 1950 Bathurst had informed Brompton of the former's expectation that all of its increased production in 1951 would be going to the domestic market (Serials A25514-15 2LCM). The C.P.P.A.'s annual review of capacities and production and its projections of future capacity and of the requirements of the domestic and export markets kept all recipient mills well informed of these matters.

In addition, the following section indicates an exchange of statistical information on the shipments of individual companies including all of the eastern "big four" as well as some of the smaller producers.

(f) Statistical Interchange

There is evidence that a detailed and well-organized statistical interchange among the board producers continued throughout the period covered in this inquiry. The Statement of Evidence comments as follows:

"76. . . . Throughout the whole period covered by this Statement the board manufacturers have successively secured statistics revealing their individual market positions through S.C.M.M.A., then Container Board Bureau, then Hardy & Baddell and finally through the Canadian Pulp and Paper Association (Serials 20362-71 LCM; A25989 LCO; Mr. Cockerill's evidence pp.5820, 5825-6). "

(Statement of Evidence, Vol.I, p.56)

An exchange of correspondence in 1945 indicated that Hardy & Badden's work for the board manufacturers was exclusively statistical. A memorandum dated August 2, 1945 from Mr. P. H. Scowen to Mr. W. H. Palm of Brompton said:

"I am again O.K.'ing a debit note from Hardy and Badden - our share being \$175.67 for a quarter.

Is it necessary to keep this on and can you tell me what Badden now does for us other than compiling statistics? "

(Serial A25990 LCO)

he reply was in part:

"Re: Hardy & Badden

Replying to yours of August 2nd, the only service which these people are providing at the present time is the compilation of statistics. However, I think we should certainly continue to subscribe, inasmuch as the figures obtained are very valuable indeed and, as you know, since H. & D. and Gair have dropped out of Dominion Paperboard we get no data on their operations whatever and this is the only source from which same could be obtained, unless we set up some other organization to provide it.

. . . "

(Serial A25991 LCO)

The Statement of Evidence describes the further development of this statistical interchange as follows:

"6. . . . Starting about August 1946 (date at foot of Serial A18114 4HDT) there are statistical reports in evidence, retroactive to the year 1944, promulgated by the Canadian Pulp and Paper Association to show in detail the total production and shipments, both domestic and export, of the four mills, together with a breakdown of domestic and export shipments by grades, and a comparative summary of the percentage shares of each company in the home market. These statistics were gathered and disseminated monthly, showing results for the current month and cumulative totals for the year (Serials A26274-82 LCO).

7. On March 12, 1951, W. H. O'Reilly of the Canadian Pulp and Paper Association wrote as follows to BROMPTON, and presumably to the other three leading mills:

'In 1944 we arranged to provide the then principal Eastern manufacturers of container board with a monthly and cumulative statement showing total operations, domestic shipments and export shipments of all container grades.

The four principal Eastern manufacturers were yourselves, Bathurst, Gair and Hinde & Dauch.

The suggestion has now been made that these monthly and cumulative statements might be expanded to include all Canadian companies presently producing better than 2000 tons of container grades per annum.

Before approaching any of these companies it would seem desirable to obtain the ideas and consent of the original four.

If consent to the expansion is obtained, we would then invite the following companies to enter the interchange:- Abitibi, Anglo-Canadian, Dryden, Pacific Mills and Strathcona. In addition to these, we would have a catch-all of other companies covering those whose production is less than 2000 tons a year. This catch-all would also include any other companies who declined the invitation.

May I have your thoughts in the matter, please. '

(Serial A25540 2LCM)

And Mr. Godden, for BROMPTON, replied:

'I have your letter of March 12th re the suggestion to expand the present form showing the monthly shipments and production of shipping case materials, to include all mills making a greater amount than 2000 tons of strictly shipping case materials.

We agree with this suggestion, provided the companies reporting are selling 2000 tons or more of shipping case materials to shipping case manufacturers in Canada, for use in the manufacture of shipping cases.'

(Serial A25539 2LCM)

If these invitations were issued to all concerned, only ABITIBI and DRYDEN accepted them. Thereafter the monthly reports included these two companies (e.g. A25631 2 BAM), and annual reports retroactive to 1944 were issued by C.P.P.A. on May 10, 1951, incorporating their data (e.g. Serial A18113 4HDT).

8. In December 1954, when C.I.P. was preparing to begin producing containerboard, that company also applied to C.P.P.A. to be included in the statistical interchange. This request was also treated by C.P.P.A. as being subject to the consent of the participating companies and was put to them, by Mr. O'Reilly, on this basis. A ballot was included, and favourable replies by ST. LAWRENCE and BATHURST are included in the evidence (Serials A25719-20 2BAM, A25588-9 2LCM). "

(Statement of Evidence, Vol.IV, pp.704-05)

(g) Summary

In the circumstances of limited board supply existing from 1947 to 1954, certain features of the sales policies of Hinde & Dauch, Bathurst, and St. Lawrence tended to rigidify the board market so that their respective shares of that market tended to be constant. Similarly, during the same years, the percentages of the total sales of shipping containers by the largest converters tended to be held constant through clauses in contracts for the supply of board or through customary selling and supplying practices. Some of Bathurst's contracts, by giving it the right to supply all or virtually all the buyer's requirements, introduced an element of rigidity into the market quite apart from whether or not board supply was limited. Converters who were either part of an integrated concern (e.g., Hinde & Dauch) or subsidiaries of a board mill (e.g., Shipping Containers and Kraft Containers) found it much easier to obtain supplies, or increased supplies, of board than did some independent converters.

At the same time Hinde & Dauch reduced or cut off entirely supplies of board to certain independent converters as one means of increasing the quantities of its board available for its own plants and required by its own expanding production of containers, a policy necessitated by its failure to expand its own production of (jute) board. This action by Hinde & Dauch was supplemented by its signing of a sales contract with St. Lawrence which gave Hinde & Dauch increasing supplies of kraft board.

The effects on independent producers of containers were often adverse: more than one of them experienced considerable difficulty



in obtaining the board supplies required to maintain its existing levels of production or to expand production.

Certain clauses of some of these contracts had the additive effects of binding the parties to the observance of uniform prices and standards of manufacture of board.

The statistical interchange between most of the importers and producers of Eastern Canada was sufficiently extensive and up to date that each recipient of the monthly reports could be fully aware of current sales of its rivals.

## 2. Western Canada

On the Prairies there were only two major companies producing shipping containers throughout the period 1947-54, Martin Paper Products and Hilton, the latter a subsidiary of Corrugated Paper Box. A third company, Canadian Western Box, in operation in Calgary at the start of this period, was acquired by Martin Paper on December 1, 1947.

The supply of board to the Prairies was analysed in Chapter I. There it was noted that the market was always dominated by three and later by two suppliers, although not always by the same companies. At the beginning of the period Brompton, Bathurst and Hinde & Dauch held almost 100 per cent of the market, although Gair made small shipments. In 1948 Crown Zellerbach entered, and grew in importance thereafter. In 1949 Hinde & Dauch withdrew completely and stayed out until 1954, then returning in a very small way. In 1950 Dryden entered and grew steadily in importance to the end of the period. Bathurst's share of the market shrank steadily throughout the period and, although never absent entirely until 1954, its contribution after 1950 was quite minor, being confined to .025 liner. From 1952 onwards minor shipments were made by Sidney Roofing, Gair and Abitibi.

### (a) Supplies to Hilton

Supply of board to Hilton from St. Lawrence and Hinde & Dauch was as follows in thousands of tons:



	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>
ie & Dauch	5.27	3.60	-	-	-	-	-
mpton (St. Lawrence)	<u>3.06</u>	<u>3.41</u>	<u>6.71</u>	<u>7.94</u>	<u>8.13</u>	<u>8.15</u>	<u>6.88</u>
Total :	<u>8.33</u>	<u>7.01</u>	<u>6.71</u>	<u>7.94</u>	<u>8.13</u>	<u>8.15</u>	<u>6.88</u>

ce: Returns of Information

Reference was made in a previous section of this chapter to Hinde & Dauch's reduction of supplies to Corrugated Paper Box. As Hilton's supply came from its parent, the latter's reduced supplies entailed a reduction to Hilton. During the period up to 1954, despite increased shipments from Brompton, Hilton never after 1947 received as much board from these two board mills as it did in 1947. In 1953 Dryden began shipments to Hilton.

Mr. W. R. Hilton of Hilton testified that board supplies in the years 1954-56 had not hampered his firm's expansion of container sales, but prior to that date paperboard had been in short supply and this had limited Hilton's share of the market (Evidence, pp.2822-23).

(b) Supplies to Martin Paper

On the subject of Martin Paper's supply of board the Statement of Evidence says:

"90. MARTIN PAPER was supplied in 1947 principally by BATHURST, although some considerable tonnage also came from BROMPTON (6, 050 tons as against 1, 760 tons). This tonnage from BROMPTON included the requirements of MARTIN PAPER's new subsidiary, Canadian Western Box, located at Calgary, Alberta. This appears from Serials 8437 MPP and A26036 LCO, . . . With respect to its earlier established Prairie business, MARTIN PAPER's purchases were covered by contractual arrangements with BATHURST, which for 1947 provided that MARTIN PAPER must secure 82 per cent of its requirements from BATHURST.

91. The contractual arrangements referred to go back to the consignment agreement of January 25, 1940, which is part of BATHURST's return of information. It was similar to the other consignment agreements described and provided for the exclusive supply of MARTIN PAPER by BATHURST for 1940, the contract being automatically renewed in the absence of notice on the last day of each year. For 1940, the estimated requirements of MARTIN PAPER were 1,800 tons. In 1944 the clause dealing with the tonnage covered was changed to cover 5, 500 tons.

BATHURST still retained its right to exclusive supply and the term of the contract was extended to the end of 1946. In November 1946 the contract was further amended as to its term and as to quantities of board. The term became the year 1947, and thereafter from year to year subject to termination. The quantity became:

'Approximately 82% of the requirements of the Buyer estimated by it to be 8400 tons per annum to the extent that the Seller may be able to supply such product required by the Buyer, namely, 6,888 tons during the period of this contract and in accordance with the terms and conditions thereof. The Seller, however, may supply at its option 82% of any kraft liner requirements in excess of 8400 tons as estimated above, during the period of this contract and in accordance with the terms and conditions thereof.

It is agreed that the Buyer will to the extent of the tonnage covered by this contract order Kraft Liner and Kraft Corrugating Board from the Seller in approximate proportions of 60% and 40% respectively.

It is also agreed that if the Buyer is obliged to reduce its requirements owing to lack of orders it will nevertheless continue to place its orders for kraft liner with the Seller on the basis of eighty-two per cent of its requirements.'

On October 8, 1947, the agreement was extended for another year and a provision of the earlier contract, providing for some stock be drawn down at the old price when prices change, was cancelled. In 1948, however, the contract was not effective and ST. LAWRENCE took over a large part of BATHURST's business with MARTIN PAPER. Successive reductions in sales by BATHURST to MARTIN PAPER in 1949 and 1950 occurred and in that year BATHURST withdrew completely by pricing itself out of the Western market. Shipments by BATHURST thereafter were confined to .025 liner not made by BROMPTON or any other suppliers of the West. These changes in the Western supply picture were brought about in an atmosphere of co-operation between the two mills and MARTIN PAPER and not as a result of competitive action. "

(Statement of Evidence, Vol. IV, pp. 749-5

In 1947 Martin Paper had decided to build a new box plant in Medicine Hat, Alberta. Realizing that the sine qua non

of the project was a supply of board, Mr. John Martin wrote to Mr. R. L. Weldon of Bathurst on May 23, 1947, indicating his company's plans for the new plant and asking what Bathurst could do in the way of a supply of paperboard . (Serials A27147-48 BAN). Mr. Weldon's reply of June 18, 1947 said, in part:

" . . .

I was naturally very interested to hear of your decision to go ahead with a plant in Alberta. No doubt the final arrangements will be dependent upon your ability to obtain board supplies and in that connection I feel I should make it as clear as I can that the opinions expressed to you, when we discussed this matter of shipments to Alberta from Bathurst some time back, still maintain and I can see no chance at all of our being able to consider it. The logical sources of supply are those more closely situated to Alberta.

. . . "

(Serial A27151 BAN)

On May 29 Mr. Martin wrote Mr. Godden of Brompton indicating the company's plans for a plant in Alberta and asking him to consider the possibility of shipping increased tonnage to Martin Paper. Mr. Godden's reply of June 2, 1947 amounted to a refusal to commit himself (Serials A26016-17 LCO).

The oral evidence of Mr. R. L. Weldon on this matter is as follows:

"Q. . . . Now what was your reason for turning down Martins at this time ?

A. Very much the same basic reason that I was explaining to you a while back with respect to the whole situation in the west with the construction of Red Rock. In other words, we were going still farther afield from Bathurst where the freight rate situation would grow greater as a problem as far as we were concerned.

Q. Why did this concern you in view of the fact that you could recover the full amount of the freight ?

A. Because I did not feel that we could continuously do that. I felt that competition would prevent it, and while that was the situation at that particular period of time it might not have continued to permit us to get that recovery.

Q. Did Martin point out to you that he had tried to get it from St. Lawrence and had been similarly turned down?

A. I don't remember whether he pointed it out in that form, but Martin and I had a number of discussions -- I believe two or three out in Winnipeg -- somewhere between those two periods. Martin discussed the whole problem of starting something out there and we examined it and came to the conclusion that as far as we were concerned it was unwise for us to try to merchandise goods in that market so far from Bathurst. "

(Evidence, pp.6899-6900)

The testimony of Mr. Godden of Brompton was, briefly, that he preferred to sell the available tonnage to Hinde & Dauch in the Toronto and Montreal markets and also to allocate some tonnage to the export market, export shipments being expandable and contractable on relative short notice, thus giving a margin of safety in case of a breakdown in mill operations:

"A. . . . we at that time -- just about that time -- were supplying another box company in Alberta, in Calgary, who I just can't remember -- it is a matter of record as to the year.

Q. You are referring to Canadian Western Boxes?

A. Canadian Western Boxes and they were pressing us for more tonnage out there and we could have shipped them an increased amount if we had wanted to put that tonnage into the west.

Q. Oh, I see --

A. But we have always looked at markets there very carefully this I can state with authority -- and we felt that it was in our best interests in the long run to increase our tonnage with Hinde and Dauch in the peak market area of Toronto or Montreal as opposed to putting too much tonnage in the west at that particular time. We were investigating that whole area very very carefully. We later on felt, as I said, I think in evidence earlier, that the west did become a more important outlet for us as time went on but at that time we weren't sure of the Alberta market at all -- what was going to happen at that time -- we were feeling our way and, as I said, we had tonnage going into Winnipeg and we had tonnage going into Calgary and we just wanted to see what was going to happen in the Calgary market before we tied up more tonnage in that area. I personally was responsible for putting that decision over with our own management. "

(Evidence pp.6010-11)



And:

"Q. With respect to this export business what was your mill net return on exports -- were those mill net returns equal to or higher than or lower than your mill nets on Canadian sales?

A. In the majority of cases I would say it was lower.

Q. And why did you export then rather than supply people like Martin and Maritime when they wanted some more board?

A. Because the export market in our case has always been considered as a cushion and we sell in the export market in the majority of cases on a three months' basis -- on a quarterly basis -- and all our contracts, all our new contracts at any rate, and I think pretty well all of them, you will notice where extra tonnage is represented or granted over and above the actual amount of the contracts, it refers to our ability to grant it on a quarterly basis -- that is so we can pull it out of the export market if we want it in the domestic market. Where the contract was granted, as we did in those days, rather than by a written contract, we would tell the man at the first of the year we would try to reserve for him a certain amount of tonnage that we estimated, in total, would add up to our production for that year, or maybe a little in excess. We would always include in that the size of the export tonnage which, as I say, in the case of a breakdown or an unforeseen happening, we had a cushion that we could draw on and we wrote to them and last year I should say we were pushed pretty hard for tonnage, as you probably know, and we sold quite a considerable amount in the export market -- we have reserved an amount of approximately 10,000 tons for export feeling that it is necessary in order to conduct our business the way that we want to conduct it -- does that answer your question? " .

(Evidence, pp.6014-15)

Mr. Godden denied having discussed Brompton's allocations of board to its customers with other board mills. He also denied any agreement with other board mills as to amounts Brompton might sell to their customers (Evidence, pp.6015-17).

Canadian Western Box was a very serious competitor of Martin Paper in the Alberta market. Mr. Glynn of Martin Paper said in a letter of October 8, 1947 to Mr. D. A. Hindle:

" . . . But unless we do something about the Calgary plant, we probably would lose Alberta sales or a good bulk of them.

. . ."

(Serials 8431-33 MPP)



Martin Paper finally decided not to build a plant of its own in Alberta, but to buy out its Calgary competitor. Before buying Canadian Western Box, Martin Paper arranged with Mr. Godden for a supply of board. The latter's letter to Mr. D. A. Hindle of November 24, 1947 said, in part:

"Many thanks for your note of November 19th advising us that you have purchased the Canadian Western Box Company. This is very good news and I can assure you that we will be pleased to continue to ship to this plant at the rate of 3000 tons per annum for the balance of this year and 1948.

Regarding their quota for the balance of 1947 they are down somewhat in tonnage due to a slack period that they experienced in the late spring and summer and this tonnage was forfeited. We will, therefore, not be in a position to make it up between now and the end of the year.

With regard to the price of paper laid down in Calgary, this as you know was based on the Winnipeg price, plus additional freight. While we are not in a position to change this policy at the present time we have been successful in having the freight rate reduced from East Angus to Calgary and are working on the Red Rock to Calgary rate. I am hopeful that around the first of the year we may be able to give you the benefit of a reduced rate from both Mills. In the meantime, we are looking into this situation very carefully and I can assure you that we will do everything possible to help you out.

. . . "

(Serial 8437 MPP)

This arrangement for supply of 3,000 tons to the Calgary plant must have been regarded as not contravening the 82 per cent provision in Martin Paper's contract with Bathurst, for 3,000 tons were more than 18 per cent of Martin Paper's requirements.

In 1950 Bathurst ceased supplying the Prairies with board except for .025 liner. In that year Dryden began supplying board to Martin Paper. These developments took place after communications between Bathurst and Brompton regarding the allocation of supplies among their customers.

A memorandum written by Mr. G. T. Cockerill of Bathurst on September 1, 1949 to the President of Bathurst showed that Mr. Cockerill had consulted Mr. Godden of Brompton. Much of the

memorandum concerned pricing in Western Canada and for that reason the document is not quoted in full:

"Roger Godden called to see me August 30th to say that considerable pressure was being brought to bear on him to reduce Winnipeg prices of liner and corrugating to same as the Eastern prices.

. . .

It was his opinion we could arrange to replace any Martin tonnage consequently lost to us by increasing our allocation to Corrugated Paper Box and Brompton reducing accordingly.

This is not a matter for immediate decision. I am putting it on a memo so as to be sure not to forget to advise you about it.

I feel Roger and I should probably have a joint conversation with Martins.

. . ."

(Serial A27128 BAN)

With reference to this matter the Statement of Evidence says:

"110. As the statistics show, however, the proposal for switching tonnage between the two mills by ST. LAWRENCE increasing to MARTIN and decreasing to CORRUGATED PAPER BOX (and its western subsidiary HILTON), while BATHURST increased to CORRUGATED PAPER BOX, was not carried out. Instead, BATHURST ceased in 1950 to supply MARTIN PAPER with grades other than 25-point liner, the consignment agreement being cancelled on August 30, 1950 (Serials A27123-4 BAN). To take its place, DRYDEN commenced production of containerboard. DRYDEN began to supply MARTIN PAPER in 1950, issuing its first prices on February 14, 1950, but did not sell to any other Western company until 1953 . . ."

(Statement of Evidence, Vol.IV, p.761)

Mr. Weldon of Bathurst testified about these matters as follows:

"Q. Is it correct to say that you did not finally get out until you had made arrangements with Dryden to take over your tonnage to Martins?

A. That is right, half of it. We kept pressing Martins to try and get their tonnage elsewhere and they kept explaining to us it was impossible for them to get it. From time to time we said to Brompton, 'For heaven's sake, can't you work this thing out to suit Martin?'

Q. Excuse me a moment. Have you forgotten that here in September 1949 Mr. Godden came along to Mr. Cockerill and said in effect, 'We will take all Martin's tonnage and let you take some of our allocation to Corrugated Paper Mills' ?

A. I am not quite sure of the dates. I cannot remember the exact date when Dryden came to take it over.

Q. It was September 1950?

A. As far as we were concerned, we were not too worried about the situation of replacing tonnage in the East. Whether Godden was suggesting or not we could replace it, we ourselves were not too worried about replacing it in the East. By the time of Dryden's entering the picture, Brompton were already supplying about half Martin's tonnage; it had picked up the thread. But we found, and Martins complained, that they could not find the other half and we said we had to get out. It was then we approached Dryden and asked Dryden. At that time we discovered that Dryden had some idle on their kraft paper machine and we said to them, 'We would be glad to show you, if you would be interested in this, any knowledge we have of how to take over that' -- that is, how to make linerboard and therefore take over that tonnage."

(Evidence, pp.6891-92)

Mr. Weldon denied there was any arrangement between Bathurst and Dryden that the latter would take on only Martin Paper's tonnage. Although Mr. Weldon admitted that some directors were common to Bathurst and Dryden, he asserted that the question of Dryden's going into the board business was not discussed with either of these directors (Evidence, pp.6893-94).

The Statement of Evidence comments as follows:

"115. It is a fact that BATHURST is, and was then, controlled by Power Corporation of Canada, Limited and its subsidiary Canadian Power & Paper Securities Limited. Canadian Power is controlled by officials of Nesbitt Thomson & Company Limited and officers of this company at the time sat on the boards of Power Corporation, BATHURST and DRYDEN (Returns of Information). . . . "

(Statement of Evidence, Vol.IV, p.768)

Except for 100 tons shipped to Kraft Containers in 1950, Dryden supplied only Martin Paper until 1953 when it began supplying Hilton. By 1954 it was shipping Hilton 50 per cent of the latter's total supply and was, in fact, supplying more to that company than was St. Lawrence. In 1952, 1953 and 1954 Dryden supplied Martin with greater tonnages than did St. Lawrence (Returns of Information).

In early 1950, in addition to supplies from Dryden, Martin Paper had arranged for a supply of 3,000 tons per year for its Calgary plant from Pacific Mills and for 7,500 tons from Brompton, of which 2,400 were to go to Calgary and the balance to Winnipeg (Serials A26147-51 LCO; 25241-42 MPA). These arrangements, however, did not provide for Martin Paper's requirements of .025 liner. Considerable negotiation occurred before the supply of the latter was finally ensured, and these negotiations occurred between Brompton and Bathurst as well as between each of them and Martin Paper.

Mr. Hindle had asked Pacific Mills to supply .025 liner to Calgary, but Pacific Mills did not manufacture it (Serials A26171-72 LCO). He then wrote to Mr. Godden asking Brompton to supply this grade and enclosing a telegram from Pacific Mills showing the latter's inability to supply (Serial A26170 LCO). Mr. Godden answered on January 9, 1950 that Brompton could not manufacture .025 liner at Red Rock and would have to supply from its East Angus Mill:

". . .

. . . which we are prepared to do even though our freight rate from East Angus to Calgary is almost ruinous.

With this in mind, we would certainly appreciate your buying as much as you can of this caliper from our mutual friends, the Bathurst Company, and it is even possible that they might be prepared to ship some as far as Calgary. You might let me know how you make out in this regard, as I am of course very interested."

(Serial A26169 LCO)



Mr. Hindle replied on January 10 in part as follows:

" . . . I was speaking to Gerry Cockerill this morning and brought up the question of 25 point liner for Calgary. We estimate they will require only 400 to 500 tons for the year. He said he would be talking with you today and possibly work out some satisfactory plan of shipping this amount to Calgary plant.

. . ."

(Serial A26168 LCO)

Mr. Godden wrote on January 18, 1950 as follows:

"I have your letter of January 10th regarding .025 Liner for Calgary. As you know, we are still unable to make .025 Fourdrinier Kraft Liner at Red Rock, but supply our customers with this caliper in Cylinder Kraft Liner, as per sample attached.

If absolutely necessary, we can ship to your Calgary plant from East Angus, however, as mentioned on the telephone, this is not exactly a profitable operation for us, but we will be glad to take care of you if you are unable to work out a satisfactory deal with Bathurst or if it would embarrass Bathurst to ship to that point.

I have discussed this matter at some length with Gerry and he tells me that he has suggested that you pay us a visit and talk the whole matter over and I must say I think that this suggestion is a good one. Meantime, however, you can tell George Holland that if the Cylinder Kraft meets with the approval of the 'High Command' of the Martin Paper Products, he will not be stuck provided he gives us at least two weeks' advance notice so that we can get this Board made and delivered to him."

(Serial A26167 LCO)

Mr. Hindle's reply of January 27, 1950 asked for a price on the .025 liner (Serial A26166 LCO). Mr. Godden's reply of February 6, 1950 included the following:

"I have your letter of January 27th with reference to shipments of .025 Kraft Liner from East Angus to Calgary. As



you know, I have discussed this matter with our mutual friend, Gerry, and I find that our freight rate from East Angus to Calgary is unfortunately a few cents higher than the freight rate from Bathurst to Calgary. This discrepancy is due entirely to what is known as the Maritime Agreements between the railroads and those Provinces. I also understand from Gerry that they are willing to ship some .025 from Bathurst to Calgary, but this tonnage has to come out of their total allotment to Martin Paper Products.

. . . "

(Serials A26164-65 LCO)

The final letter in this exchange, written by Mr. Hindle on February 8, 1950, included the following:

"Many thanks for your letter of the 6th re .025 Kraft Liner. Larry Weldon was here last week, chiefly to see his invalid mother, and as you have learnt from Gerry, they will handle this particular liner from Bathurst to Winnipeg at \$5.09 per M Square Feet plus difference in freight of \$1.81 and \$1.13 or .68¢ per Cwt. equal to a cost at Calgary of \$5.59 . You will note that Mr. Weldon was careful in quoting the price F. O. B. Winnipeg. Before doing so, I asked Larry if this would fit in with your program to which he replied he thought it would ! Hope his thinking is right?

. . . "

(Serials A26162-63 LCO)

The statement of Evidence comments further as follows:

"120. After DRYDEN entered the supply picture in 1950, MARTIN PAPER had no further trouble about securing adequate quantities and their total usage of board increased as follows: 1950 - 13,600 tons; 1951 - 17,400 tons; 1952 - 18,200 tons; 1953 - 20,200 tons. In 1952, they opened a new factory at Edmonton. The new supplies came from progressive increases by DRYDEN."

(Statement of Evidence, Vol.IV, p.772)

(c) Prices of Eastern Board in Prairie Market

At times during the period of the inquiry the price structure for board in the Prairies gave the board mills in Eastern Canada and also Pacific Mills net returns at their mills considerably higher than they obtained from sales into territories lying much closer to their plants. An understanding of this price structure presupposes a knowledge of freight rates as well as of other matters.

The freight rate structure on which Brompton made important shipments of board from its Red Rock mill was stated to be the following in a letter from Mr. Godden to Mr. P. M. Fox, both of Brompton, on May 12, 1949:

"Carload Rate:

Red Rock to Winnipeg	-	58¢
Calgary	-	\$1.22
Toronto	-	.54
Montreal	-	.65

. . . "

(Serials A25506-08)

The relationship of these rates to the price structure at that time is described as follows in the Statement of Evidence:

"103. The above figures, in cents per hundred pounds, may be translated into cents per thousand square feet of the different grades of kraft board, by substituting for the difference in weight of the grades, as published in Trade Customs and the kraft mills' price lists. The .009 and .016 grades, for example, were 26 and 47 pounds, respectively, per thousand square feet. Thus on these grades the freight rates were:

CARLOAD RATES FROM RED ROCK

.009	-	to Winnipeg	-	15.08 cents
		Calgary	-	31.72 "
		Toronto	-	14.04 "
		Montreal	-	16.90 "
.016	-	to Winnipeg	-	27.26 "
		Calgary	-	57.34 "
		Toronto	-	25.38 "
		Montreal	-	30.55 "

104. The Western price structure had developed in the pre-war period when the only business in the Prairies for containerboard was for sales into Winnipeg, and the business was primarily done by HINDE & DAUCH and BATHURST, shipping from Ontario and New Brunswick respectively. Prices were quoted on a delivered price basis in Ontario and east, freight to destination being absorbed by the mills, and there was also a delivered price basis for Winnipeg, at a higher level, in order to compensate for additional freight. When Canadian Western Box was established in 1946, however, the Red Rock mill of BROMPTON had been in commercial production since the first of the year. A Calgary price had to be established for supplies sold to the new company, and ST. LAWRENCE did establish such a price, basing it upon the existing Winnipeg price. As of October 1, 1947, the actual price structure in effect provided for a delivered price in Ontario and east, a delivered Winnipeg price 10 per cent higher than the east, and a delivered Calgary price which was the Winnipeg price plus carload freight to Calgary. These prices per thousand square feet, were as follows:

	<u>Ontario &amp; East</u>	<u>Winnipeg</u>	<u>Calgary</u>
.009	\$1.37	\$1.51	\$1.68
.016	2.57	2.83	3.12
.025	4.21	4.63	5.10

Thus, on shipments from Red Rock to CANADIAN WIREBOUND, Montreal, on the basis of the freight rates referred to above, the mill net return on .009 board would be \$1.37 less 17 cents, i.e. \$1.20 per M square feet. On the same sale to Winnipeg the mill net would have been \$1.22 even if the Winnipeg price had been the same as the Eastern price, but in fact the Winnipeg base price was 10 per cent higher than the East, so that BROMPTON's mill net on Winnipeg sales was \$1.36 per M. On sales to Calgary, the mill net was also \$1.36.

105. So long as the two established Winnipeg companies were not subject to competition from outside their own territory, and as they were not competing in price, this situation was not unfavourable to them. In fact, with raw material costs representing so high a proportion of total costs and the mark-up being calculated on total costs, they made more money that way. Conditions in Alberta, however, were different. There CANADIAN BOXES was building up its position and this company's supplies came from its parent at the Coast, PACIFIC MILLS. . . . "

When Martin Paper was contemplating the purchase, either by itself or jointly with Pacific Mills, of Canadian Western Box of Calgary, in the fall of 1947, Martin Paper's officials were discussing attempts to get the price basis of board in Calgary reduced. This is shown in a letter from Mr. J. R. Glynn of Martin Paper to Mr. D. A. Hindle of Martin Paper, dated October 8, 1947, which said in part:

" . . .

The next thought I had is this. Why not talk to Roger Godden now and convince him of the justice and the wisdom of selling us on a F.O.B. mill basis which would be the Eastern price less the freight to Toronto. If he agreed to this, he could sew up the Western market as far as Winnipeg and Saskatchewan was concerned. And if, in case Pacific Mills would refuse to go in with us as outlined above, he would consider absorbing some freight on tonnage that would go into Alberta box shipments, we could still compete in Alberta even though Pacific Mills bought the Calgary plant.

. . . "

(Serials 8431-33 MPP)

The letter contains detailed data on freight rates and calculations of proposed prices of board from Red Rock laid down in Winnipeg and of board from Vancouver laid down in Calgary, together with calculations of the effects upon prices of boxes delivered at various points in Saskatchewan and Alberta.

A slight adjustment in Calgary prices was made at the time of the price change of October, 1948. The prices of .009 and .016 liner per thousand square feet then became:

	<u>Ontario &amp; East</u>	<u>Winnipeg</u>	<u>Calgary</u>
.009	\$1.51	\$1.66	\$1.72
.016	2.83	3.11	3.23

The Statement of Evidence comments as follows:

"105. . . . Thus, Winnipeg was still 10 per cent higher than Ontario and east, but Calgary no longer bore the full freight from Winnipeg. On the basis of the early 1949 carload rates, the mill net on Red Rock sales became



as follows:

	<u>Montreal</u>	<u>Winnipeg</u>	<u>Calgary</u>
.009	\$1.34	\$1.51	\$1.40
.016	2.52	2.84	2.66

So that while Calgary sales were no longer as profitable to BROMPTON as Winnipeg sales, both Winnipeg and Calgary prices still represented discrimination against Western buyers in that they were more profitable than sales to the East, Winnipeg much more so than Calgary. Mr. Godden's language: 'a slight adjustment in price' probably described the situation well enough for BROMPTON, who were shipping to Calgary only about 3,000 tons per annum, but actually the savings for Calgary arising from the change in the price structure was very considerable. What was actually done, moreover, was to relate, though not equalize, the board price for Calgary to the price charged by PACIFIC MILLS to CANADIAN BOXES, and this remained the basis of Calgary 'board costs' for some time, . . . These Calgary 'board costs' differed from equalization with PACIFIC MILLS' prices, in that they were arrived at by adding to PACIFIC MILLS' board prices some freight arbitraries on shipments of finished boxes, which bear a higher freight rate than rolls of paper. In other words, they were not PACIFIC MILLS' f.o.b. Vancouver prices for board, plus freight on containerboard from Vancouver to Calgary, but were Mr. Hayes's compound 'board costs' based on PACIFIC MILLS' board prices, plus freight factors on finished boxes of the relevant specifications.

106. MARTIN PAPER's views as to Western prices, including a series of calculations demonstrating in terms of the per ton price, the same propositions as have been developed above in terms of prices per M square feet, are set out in Mr. Glynn's letter of October 7, 1948, to Mr. Godden. This letter, incidentally, confirms the accuracy of the carload freight rates previously referred to, and also includes the following statement:

'As stated, we understand that at the present, no price basis such as this can be used for Winnipeg, but we do feel that this is an equitable manner of setting the price for Calgary.'

(Serials A26073-7 LCO) "

(Statement of Evidence, Vol.IV, pp.758-59)



On February 10, 1949 Mr. Hindle of Martin Paper sent a letter to Mr. Godden which pressed for a revision of board prices in Winnipeg. This letter shows that the board price charged by Brompton was adversely affecting Martin Paper's position in the container market:

"Further to our conversation this morning, we have for the past two months noticed a general falling off in demand, with both plants having little or no back log, weather conditions have been the worst in many years and Brewers have cut down on bottling but busy overhauling the plants. Dominion Glass, Redcliff tell me they have three machines down. On top of this both Gair Company and Canadian Wirebound are shipping into this territory, a matter I will discuss with you upon receipt of F.C.Hayes' reply.

We seriously think that the question of Red Rock mill prices Toronto and their application to Winnipeg and Calgary should be settled immediately, particularly at this stage when it is generally known that the peak of production has been reached and a tendency more normal trade is in sight. Bathurst, of course, would either have to accept this proposal (i.e. Mill Ontario prices to Western provinces) or pull out of the territory and leaving the prairie tonnage for Red Rock.

At least something, one way or the other, will have to be done to place us on an even keel.

. . . "

(Serial A26096 LCO)

Mr. Godden's reply of February 16, 1949 said that the price of board would "have to remain as is, until we can sit down and discuss it fully at some future date" (Serial A26095 LCO).

Mr. Hindle again asked in a letter of February 17, 1949 that the Winnipeg price basis be adjusted (Serial A26094 LCO).

On May 12, 1949 Mr. Godden referred the matter to his President, Mr. P. M. Fox, in a letter from which the following is extracted:

"There is a situation with regard to our sale of Shipping Case Materials to the mid-western provinces which I feel should be drawn to your attention, as I think it will have to be faced in the very near future. The middle western corrugators have asked us for a lower price on shipping case materials and justify this request on two counts - namely, that the existing higher price that

they have been paying was based on the eastern price plus a differential for extra freight which was paid in earlier times by Bathurst and Hinde & Dauch who were the two main shippers to that area. Now that we have replaced these two firms as the main supplier to this area with Board coming from our Red Rock Mill, where the freight is lower actually from Red Rock to Winnipeg than it is to Montreal, they feel that there is no justification for our charging the higher price.

The other point is that Pacific Mills in British Columbia are also selling Board and Boxes at approximately the same prices as are being charged for these commodities in Ontario and Quebec and are giving us pretty stiff competition, not only in Calgary but under the present set-up are even able to ship boxes into the Winnipeg area and compete with the Winnipeg box shops.

We can of course go a step farther and say that this situation leaves the Winnipeg corrugators wide open to future competition from American corrugators if conditions warrant their dumping excess production into Canada.

This request for lower prices has been made to us repeatedly now for a period of two years and I was able to hold it off last autumn when I was in Winnipeg, by making a slight adjustment in the Calgary price and by allowing Pacific Mills to take approximately 100 tons per month of our western business - with the idea that as long as they were selling raw material in this area, they would not be so inclined to cut prices on the finished boxes.

These situations have now changed somewhat and Pacific Mills are anxious to get more business in that area and I understand are quoting some of the larger accounts in the Calgary-Redcliff-Medicine Hat area at pretty much the Vancouver prices. If this condition persists and the western corrugators continue to lose business to the opposition on both sides of them, they will undoubtedly insist upon a reduction in their price and I believe now would be able to buy Board from some of the Southern mills at a price somewhat below what they are paying at the present time. I base this statement on the fact that considerable quantities of Liner Board are being offered in the States at as low as \$88.00 at the mill and with a 22½% Duty, plus freights ranging between \$15.00 and \$20.00, they would have a laid down price considerably below the \$132.00 that they are now paying for Liner and, as previously mentioned, the Calgary price is even higher than \$132.00.

. . . "

On June 21, 1949 Mr. Hindle asked for a further adjustment of Brompton's prices in Calgary:

" . . .

As you know from reading the American Board Report, all cities in the U.S. pay almost the same price for corrugated box material. We believe the same system could be put into effect here with the exception of Calgary. It is a long haul to Calgary from either East or West with a corresponding higher freight. We do think however, that Calgary prices could be based on Pacific Mills plus freight, using your Red Rock mill net as starting price. This would mean some freight absorption, but would put the whole pricing basis for boxes on a more equitable basis, and would have a stabilizing effect throughout the whole industry.

. . ."

(Serial A26104 LCO)

A memorandum written by Mr. G. T. Cockerill of Bathurst to Mr. R. L. Weldon of Bathurst on September 1, 1949, part of which was quoted earlier in this chapter, shows that Mr. Godden had consulted Mr. Cockerill on August 30:

"Roger Godden called to see me August 30th to say that considerable pressure was being brought to bear on him to reduce Winnipeg prices of liner and corrugating to same as the Eastern prices.

In view of freight rates from Red Rock to Winnipeg and to eastern destinations, he felt they could hardly justify retention of premium price in Winnipeg.

Apparently Hinde & Dauch are pretty well out of Winnipeg so far as Jute is concerned.

I said we certainly would not reduce our prices as we definitely needed the higher price to offset additional freight costs.

It was his opinion we could arrange to replace any Martin tonnage consequently lost to us by increasing our allocation to Corrugated Paper Box and Brompton reducing accordingly.

This is not a matter for immediate decision. I am putting it on a memo so as to be sure not to forget to advise you about it.

I feel Roger and I should probably have a joint conversation with Martins.

I do not think any such reduction would have any adverse effect on shipping case prices in the east - but it might. Also it may add some fuel to the Pacific Mills - Canadian Boxes - competition Winnipeg and West."

(Serial A27128 BAN)

In point of fact Brompton did not reduce its Winnipeg prices at this time, nor was any adjustment made until the time of the general increase in board prices which occurred in September 1950, when Brompton left the Winnipeg prices of .009 and .016 liner unchanged from their previous levels. Winnipeg prices then became the same as for Ontario and more easterly provinces. Bathurst, however, increased its prices to Winnipeg at this time, which in effect priced its products, except for .025 liner, out of that market. Thereafter Bathurst supplied only .025 liner to the Prairie market.

(d) Prices of Pacific Mills' Board in Calgary Market

Similarly, for a considerable period the prices at which Pacific Mills sold board to Martin Paper's container factory in Calgary were set at levels which exceeded Pacific Mills' prices to its subsidiary, Canadian Boxes, by more than the freight charges on board from Vancouver to Calgary. Canadian Boxes was, of course, a supplier of boxes to the Alberta market and thus a competitor of Martin Paper in that market.

On November 14, 1950, Mr. H. C. Pim of Pacific Mills wrote Mr. D. A. Hindle of Martin Paper as follows:

"In answer to your wire of the 13th, I would say that effective December 1st, we are advancing our prices to Canadian Boxes Limited. The .009 corrugating will be increased from \$1.51 to \$1.57, and .016 liner will be increased from \$2.83 to \$2.94 per M. square feet.

Last week when our Mr. Scott was in Winnipeg, I talked with him and asked him to let you know in advance that we proposed to increase our Calgary prices on the above materials, effective December 1st, i.e., .009 corrugating from \$1.72 to \$1.78 and

.016 liner from \$3.23 to \$3.34 per M. square feet.

For your information, we also plan to have Canadian Boxes Limited increase its prices for boxes in Alberta area on December 1st, to reflect the above increase in material cost, plus certain other increases for labor, etc."

(Serial A26201 LCO)

A letter written to Mr. F. C. Hayes by Mr. D. A. Hindle on November 17, 1950 included an attached note from which the following is extracted:

". . .

Calgary Plant board prices from Pacific Mills and Brompton at present are:

.009	-	\$1.72	per M. Sq. Ft.
.016	-	\$3.23	" M. " "

Pacific Mills propose to increase their prices Dec. 1st to:

.009	-	\$1.78
.016	-	\$3.34

Pacific Mills propose to increase their board prices to Canadian Boxes Dec. 1st from

.009	-	\$1.51 to \$1.57
.016	-	\$2.83 to \$2.94

NOTE:

The increase proposed for Calgary is .6¢ per M Sq. Ft. on .009 and .11¢ per M Sq. Ft. on .016, which is the same exact increase Pacific Mills will charge Canadian Boxes.

We hold that the increase to our Calgary plant should be based on the new Vancouver prices plus the freight, or

	Vancouver	Freight at .73¢	Prices at Calgary should be
.009	1.57	.19¢	1.76
.016	2.94	.34¢	3.28

These facts have been brought to the attention of Mr. Pim.

". . . "

(Serials 8500-01 MPP)



In 1952, Mr. Hindle was still complaining to Mr. Pim of the pricing basis used by Pacific Mills in the Calgary market. On February 27, 1952 Mr. Hindle wrote Mr. Pim asking that Calgary prices be based on board from Pacific Mills be Vancouver prices plus freight to Calgary. An attached memorandum, dated February 26, 1952, contained the following analysis:

" . . .

VANCOUVER PRICES AT CALGARY, ALBERTA

The present price of liner and .009 at Calgary was arrived at by adding a straight percentage increase to the then existing prices. The result is that the Calgary prices are more than the starting prices at Vancouver plus freight to Calgary.

EXAMPLE:

<u>Board cost</u> <u>at Vancouver</u> <u>per 1000 sq.ft.</u>	<u>Weight per</u> <u>1000 sq.ft.</u>	<u>Freight to</u> <u>Calgary at</u> <u>.86¢</u>	<u>Adding freight</u> <u>to Vancouver</u> <u>prices correct</u> <u>price should be</u>	<u>Present</u> <u>price we</u> <u>are paying</u> <u>at Calgary,</u> <u>Alberta</u>
.016-3.33	47#	.40	3.73	3.79
.009-1.78	26#	.22	2.00	2.02

. . . "

(Serials A35232-33 BNG - Part Exhibit 50)

These differences of six cents and two cents per 1,000 square feet meant approximately \$25 and \$15 respectively per ton.

Mr. Pim's reply of February 29, 1952 said in part:

" . . .

We admit that our mill net on liner and corrugating sold to you in Calgary is fractionally higher than tonnage sold to our own operation in Vancouver. From our point of view, that fact is not relevant and we look at it this way: Could we sell the equivalent machine-time in some other channel other than Martin Paper, Calgary, at even better mill nets? I think we could, and we certainly have sold a lot of such tonnage in recent months.

If you would permit me, I think the more logical approach to your problem would be on the basis that, with your

board, labor and other costs and a limiting factor on what you can get for your finished product, the result is an unsatisfactory gross profit for the Calgary operation. If you can, in this way, show us that the operating [sic] is unsatisfactory, we will certainly give your problem serious consideration.

. . . "

(Serials A35230-31 BNG - Part  
Exhibit 50)

In November and December, 1952 Mr. Hindle was still trying to get Pacific Mills to reduce its prices (Serials A35276-82 BNG - Part Exhibit 50). Mr. Pim wrote on December 4, 1952:

". . .

Dealing purely with our own prices, I would say that the market price in Vancouver for .009 is \$1.78 and for .016 is \$3.33. We have quoted you \$2.02 and \$3.79 respectively f.o.b. cars either Calgary or Edmonton. The freight rate from Vancouver to Calgary is 85¢ and to Edmonton is 99¢. Therefore our net on your business on the prices quoted would be \$1.80 at Calgary and \$1.76 at Edmonton on the .009 or an average of \$1.78. On the .016 liner our net on Calgary business would be \$3.39 and at Edmonton \$3.32, an average of \$3.35½.

There is a very nominal higher rate on the liner but I would point out that we absorb \$1.00 per ton or say \$30.00 for every car for car bracing on Alberta shipments, so that actually we do not get a better rate on your business than we get on our own. I fail to see that these prices are unfair and with the above price clause which we are prepared to insert, I do not think there is any further point in discussing this particular angle.

. . . "

(Serials A35280-81 BNG - Part Exhibit 50)

Mr. Hindle accepted the price situation once again in his letter of December 15, 1952, but asked that at the time of the next price change full consideration be given to basing Calgary and Edmonton prices on Vancouver prices plus actual freight (Serials A35282 BNG - Part Exhibit 50).

When board and box prices were increased for the rest of Canada in October, 1953, all mills left the Alberta board prices unchanged. Neither did box prices change at this time.

(e) Summary

In Western Canada, as in Eastern Canada, converters were at no time able to order their supplies of board freely from alternate Canadian sources of supply or to shop around to obtain lower prices. The provision of board to a container manufacturer was on more than one occasion a matter, not simply of discussion and negotiation between the container maker and a board manufacturer, but between board manufacturers. In such cases agreements or co-ordination between two board mills was a prerequisite to a particular converter's obtaining an additional supply of board from a mill not previously supplying him.

Discussions occurred between Bathurst and Brompton concerning the level of prices to be charged in Winnipeg. The two mills discussed also the subject of shipment allocations to Martin Paper and Corrugated Paper Box.

At times the inability to secure supplies of board from Canadian board mills hampered, and even prevented, expansion of converting facilities on the Prairies.

Up until 1950 the prices charged by St. Lawrence on shipments to Winnipeg and Calgary were such as to yield higher mill nets than on shipments to the Montreal market. The level of Prairie board prices charged by both St. Lawrence and Bathurst was related to the freight costs on the long haul to the Prairies from Bathurst's mill in New Brunswick, or from St. Lawrence's mill at East Angus, Quebec, the rate being the same from these two points. St. Lawrence's freight costs to the Prairies from its Red Rock, Ontario mill were considerably lower. Board prices on shipments to the Prairies were discussed by officials of St. Lawrence and Bathurst. Although some adjustment was made on prices to Calgary in October, 1948, western board prices still yielded higher mill nets than existed on shipments to Montreal until September, 1950. At that time St. Lawrence's Winnipeg prices became the same as those in Eastern Canada and Bathurst ceased to ship board to the Prairies except for .025 liner.

Pacific Mills' prices for board sold to Martin Paper's Calgary plant exceeded its prices to Canadian Boxes in Vancouver by more than the freight on board shipments from Vancouver to Calgary. Canadian Boxes at the time was a competitor of Martin Paper in the Alberta box market. This board price situation continued until October, 1953.

## CHAPTER VIII

### ATTITUDES TOWARD PRODUCT INNOVATION

This chapter presents evidence on the attitudes and policies of the containerboard and shipping container manufacturers towards changes in the components of shipping containers and hence in the containers as well. This evidence falls into two sections: that dealing with the pricing of B-flutes; that dealing with changes in the specification of board proposed by the Canadian Freight Association.

#### 1. The Pricing of B-Flutes

The combined board from which shipping containers is made consists of one or more linerboards and corrugating medium, the latter being fluted with more or less undulations per foot and attached by means of adhesive to the linerboard (s). The fluting may be of three types, known respectively as "A", "B", and "C" flutes. This report is concerned with the first two only.

The square footage of corrugating medium required per square foot of linerboard for both A and B-flutes varies slightly with the make of machine used, but is significantly higher for A-flutes than for B-flutes for all machines. This is shown in the following extract from a book on the manufacture of shipping containers: <sup>(1)</sup>

"	Flute	Make of Machine	Height of Flute	Flutes per Foot	Corrugati Medium D
A.		S & S	.181	36	1.53
		Langston	.185	36	1.55
		Hooper	.189	35	1.55
		Swift	.1875	34	1.55
B.		S & S	.103	50	1.35
		Langston	.097	51	1.36
		Hooper	.1075	51	1.35
		Swift	.100	50	1.36

(1)

A. W. Werner, The Manufacture of Fibre Boxes, Board Products Publishing Co., Chicago, 1954, p.69.



This shows clearly that whereas from 1.53 to 1.55 square feet of corrugating medium are used per square foot of liner for A-flutes, a considerably smaller quantity, 1.35 to 1.36 square feet, is required for B-flutes. In other words, about 180 fewer square feet of corrugating medium are required per 1,000 square feet of liner for B-flute than for A-flute (1,530 - 1,350). A. W. Werner, op.cit., p.68, indicates that B-flute has been supplied regularly for many years by the corrugating industry of the United States. In addition to using less corrugating medium, the use of B-flute partitions permits the dimensions of the boxes into which they are to be fitted to be slightly smaller.

B-flute partitions were not supplied regularly in Canada prior to 1948, but only when a customer specifically asked for them. The Container Statistics manual had no separate tables for the "costing" of B-flutes, and when the latter were specified by a customer, they were priced on the basis of manual tables for the more expensive A-flutes. Tables for the pricing of B-flutes do not appear in the manual before late 1950. Certain firms were opposed to the introduction of B-flutes and to the provision of separate tables for them in the manual. Documentary evidence and witnesses' testimony show that the opposition was due to the fear that if B-flutes were not penalized by being subject to the more expensive A-flute pricing they would drive out the A-flutes to a considerable extent. Hinde & Dauch was strongly opposed to incorporating separate B-flute tables into the manual because it would have been vulnerable to price competition if B-flute packing became common owing to its not being prepared from a manufacturing viewpoint.

The evidence for this summary is assembled below.

Mr. Hayes's "TENTATIVE AGENDA" for a meeting of May 6, 1948 contained this item:

" . . .

D. PRODUCTION

1. Question of issuing tables covering partition liner and box allowances where B flute partitions and/or liners are used.

. . ."

(Serial 13714 HDT)



The memorandum written by Mr. C. Baird of Hinde & Dauc on May 4, 1948 (thus prior to the meeting of May 6) included the following:

" . . .

D. PRODUCTION

Question of issuing tables covering partition, liner  
and box allowances where B-flute partitions and/or  
liners are used

This would represent a major change from established pricing procedure and could lead to complications very quickly. Prices on boxes with partitions and/or liners have always been arrived at using A-flute ( $\frac{1}{4}$ " ) allowances with the result that the same price is quoted for boxes with B-flute packing as for A-flute packing. A move to include B-flute figuring allowances would, we feel, result in a greatly increased use of B-flute packing and we would be very vulnerable to price competition. From the standpoint of cost, the box user who can and does use B-flute partitions is penalized; this may not be justifiable and it is probably because of this angle that the matter is up for discussion.

. . . "

(Serials 13715-19 HDT)

Mr. McArthur's memorandum of May 11, 1948, reporting on meeting of May 6, included the following:

" . . .

D. Production

This, too, we have shelved for the time being, for it was the general opinion that were we to set up separate specifications for A and B flute and have a spread in price, it would eventually land us, for the most part, in B-flute production, as the natural tendency would be to sell the customer the cheapest box. Therefore, this, too, should have some serious thought before we throw ourselves into a competitive condition of this kind."

(Serials 13712-13 HDT)

His second memorandum of May 11, 1948 said in part:

" . . .

(1) Production as it affects A and B Flute

The facts are that the trend is definitely toward B flute. As a matter of fact, National Breweries advised the writer last week that they were just about ready to specify B flute throughout, both as it affects the box and the partitions, and if the group should approve of separate specification for both it will eventually have the effect of converting such items as ketchup, which is the next largest item to beer, and from that point down.

Therefore, owing to the fact that it is mostly a manufacturing problem we suggest that we should discuss the matter thoroughly prior to our meeting at Littlejohn's [sic] [President of Bathurst's subsidiary Kraft Containers] on June 24th.

. . ."

(Serial 13711 HDT)

The testimony of Mr. McArthur of Hinde & Dauch substantiates several of the statements made in the earlier part of this section:

"Q. Now was the introduction of these B flute specifications a matter that had to be approved of by the group?

A. A matter of discussion within the group - or the clients of Hayes - a matter of discussion - then there was a time -- considerable time for example - in our case we were not quite prepared and equipped to get into the B flute at that time - back in 1948.

Q. Well was it understood might I ask - between the members of the group -- among the group, that new products could only be introduced when there was approval?

A. Oh no - no - no - nothing like that.

Q. What do you mean by that then?

A. No - nothing like that - no - nothing like that -- what is the point there Mr. Gascoigne?

Q. Well you say here 'if the group should approve of separate specifications' --

A. Yes.

Q. It will have certain effects --

A. It will have certain effects for both - oh well evidently - that affected the ketchup - well naturally we didn't want B flute specifications to become effective too soon -- particularly until we got prepared for it -- from the manufacturing standpoint -- we wanted to delay it as much as we could.

Q. You wanted to dissuade the group from approving it?

A. Not necessarily - we were in our own interests of course we were concerned about H and D Paper Box for instance.

Q. When other new products have been introduced from time time has that been subject to discussion in the group?

A. No.

Q. This is the only instance?

A. This was a very radical change sir - a very radical change.

Q. Were there any other radical changes that took place in production?

A. Any other radical changes taking place in production?

Q. Yes?

A. I don't recall any - no -- not that would have the effect this had.

Q. I see -- was that actually taken into effect then?

A. At that time?

Q. Yes?

A. No - I don't think so - at that time - I think it was some time after that when we adopted separate specifications in A and B flute.

Q. When was it that you did adopt them?

A. 1948 I think -- Oh -- I don't know --

Q. And was its adoption approved by all the group when it was finally adopted?

A. I should imagine that would be a service that Hayes would render, to get the tables ready for that particular change.

Q. I see - so can we take it that when it was adopted - was the time when we first have tables for those specifications in the manual?

A. When we first have tables for those specifications in the manual - would be when that was adopted.

Q. Well now as a matter of fact, were you not producing B flute specifications all along - when you were requested for them?

A. Very little - only when we were obliged to do it to meet competition.

Q. And when you priced them - on the occasions that you did manufacture them --

A. Yes --

Q. Did you use the tables in the manual that were built up on the basis of A flute?

A. My recollection of that - when we were manufacturing A flute specifications we priced it on the allowances of A flute and when we were manufacturing B flute boxes on the B flute specifications we priced them on the B flute.

Q. Well I am asking you about before you ever had any tables for B flute --

A. Before we had tables for B flute --

Q. Yes --

A. We priced them on the A flute. "

(Evidence, pp.1425-28)

The evidence of Mr. Max Sutcliffe of Canadian Wirebound indicates that A-flute tables were used to price B-flutes:

"Q. And when you were making B flute cartons did you have any special sheets for costing the B flute cartons in the manual?

A. No.

Q. You costed them through the A flute ones that are in there?

A. There is no difference in producing cost of A flute and B flute cartons.

. . .

Q. Let us just clarify this then -- am I correct in understanding that you agreed with me that there was no sheet in the manual for costing the B flute cartons?

A. As near as I recollect there were no sheets in the manual for costing B flute cartons.

Q. And you used the same sheets for either A or B flute?

A. That's right.

Q. Now -- in connection with the material which is actually used in producing A flute and B flute is there the same square footage of corrugating material required -- is that precisely the same?

A. That is a point Mr. Gascoigne that we could spend a whole day on and then not get the answer . . ."

(Evidence p.2025)

His asserted equality of cost of B and A-flutings is inconsistent with the facts.

The testimony of Mr. Dunn of Canadian Wirebound on this subject was largely inconclusive, but he minimized the difference in the amounts of corrugating medium used in the two flutes (Evidence, pp.5760-62).

Mr. Diven also of Canadian Wirebound testified as follows on this question:

"Q. Well what was the character of the question of issuing tables covering partition liner and balances where B flute partitions and/or liners are used?

A. Partitions are normally made of A flute material - that is heavier or wider material - and it gives - the partitions are essentially made to protect glass and fragile articles, there is more cushion in A flute than in B flute - however some of the trade desired B flute partitions because it made smaller cartons and they could get a better price - and it was a question of whether B flute tables should be built showing the area -- giving you your area - it would be smaller than A flute or not -- or whether we should do it -- whether it was good for the industry - finally it was decided to let them have what they wanted - what they were entitled to.



Q. Prior to that were B flute partitions actually being supplied?

A. Very seldom.

Q. And when they were supplied were A flute tables used for costing them?

A. Yes."

(Evidence, p.1274)

## 2. Changes in Specifications of Board

### (a) Introduction

This section deals with the containerboard and shipping container manufacturers' activities resulting from the efforts of the Canadian Freight Association to amend the official Canadian specifications for corrugated shipping containers used by shippers on Canadian railways. The Canadian Freight Association wished to have the American specification which had been in force in the United States since 1944, adopted for use in Canada. The attitudes and representations of the containerboard and shipping container industries are shown in the following pages.

### (b) Implications of Improved Technical Specifications for Canadian Production of Containerboard and Shipping Containers

The Statement of Evidence presents the following detailed analysis of these matters:

"137. The specifications for single-wall corrugated boxes permitted under the U.S. revised rule 41 are compared with actual manufacturing specifications of boxes made in Canada prior to the 1954 revision of the Canadian Freight Classification. All specifications were common to both countries, except the combined weight of liners.

Maximum Weight of Box and Contents (Lbs.)	Minimum Mullen Test (Lbs. per Sq. Inch)	Maximum In- side Dimensions, Length, Width and Depth Added (Inches)	Minimum Com- bined Weight of Liners (Lbs. per M Sq. Ft.)	
			U.S.	Can.
20	125	40	52	52
40	175	60	75	73
65	200	75	84	94
90	275	90	138	121
120	300	100	180	148

(1)

Subject to the five per cent tolerance set by Trade Customs.

Thus in all cases except the 20-pound box (identical with the U.S.) and the 65-pound box (considerably over-strength compared with the U.S.) the Canadian single-wall boxes manufactured up to 1954 were below the specifications required by the U.S. freight classification.

138. Not only were Canadian shipping containers below the U.S. railway specifications but they also failed to meet the Canadian railway specifications. These had been embodied in Rule 1 of the Canadian Freight Classification and had remained unchanged for many years. In 1946 they were revised by Informal Ruling A-1 (Serials 3891 GCT, 24508-9 APT). In this form they remained in effect until 1954. In the 1952 memorandum by GAIR's traffic manager, he made the following point:

'Notwithstanding, while informal ruling has been in effect without the authority of the Board of Transport Commissioners for some four or more years, Canadian Freight Association has consistently refused to incorporate into the Canadian Freight Classification the specifications covered by the Informal Ruling mentioned or to adopt the proposal of the box-makers through Container Statistics Ltd. which embody to a large extent the latter, namely, the Informal Ruling requirements.'

(Serial 3889 GCT)

The Specifications of the Informal Ruling A-1 were related to caliper only. On this basis they are compared with actual Canadian manufacturing specifications used during the period, when only three calipers of board were offered by the mills. The specifications appear in the successive versions of the CONTAINER STATISTICS manuals up to the fall of 1953.

Maximum Weight of Box and Contents (Lbs.)	Informal Ruling A-1 Minimum Combined Thickness of Liners (Inches)	(1) Actual Boxes Combined Calipers (Inches)
20	.018 <sup>(2)</sup>	.018
40	.028	.027
65	.032	.032
90	.046	.041
120	.060	.050

(1) Subject to the 5% tolerance, plus or minus.

(2) From Rule 1, CFC (Serial 3890 GCT). The Informal Ruling did not cover 20-pound boxes.

139. Expanding upon the lack of compliance with Canadian Freight Regulations, Mr. Hayes drew attention to the deficiencies found in the table above, and also to the following additional ones (Serial 12453 CBT):

(1) The 20-pound box complied fairly closely on caliper and test but was generally made from .009 corrugating material, which, as a rule, was unsized and highly absorbent, whereas the Freight Classification specified a waterproof board. He asserted:

'any of the qualities required to make a good corrugating medium do not make a good liner.'

(2) Neither the 90-pound or 120-pound containers met the Mullen test requirements of 275 and 350 respectively.

140. There is nothing in evidence to indicate how the specifications of Informal Ruling A-1 were decided upon, or to what extent the industry was consulted.

141. When the Canadian Freight Classification was finally revised in 1954, specifications for the various boxes produced by Canadian manufacturers also changed. Some of them were anticipated in the manual issued by CONTAINER STATISTICS in the fall of 1953, and the rest were added when the new Freight Classification was formally adopted. The following is a comparison of some of the new specifications with those of boxes previously made. The specifications all apply to kraft grades, it being understood that jute grades of any given caliper are heavier and thus always meet the combined weight specifications. The problem for jute grades is that they must also meet the Mullen test and any other

miscellaneous specifications set out in the Freight Classifications but not detailed here. The following table indicates some of the changes brought about in the material combinations found in the CONTAINER STATISTICS manual which resulted from, or were instituted at the time of, the change in the Canadian Freight Classification:

Maximum Weight of Box & Contents (Lbs.)	Informal Ruling A-1 (Combined Caliper (Ins.)	U.S. Consoli- dated Frt. Classi- fication 1944 & Cdn. Frt. Classification 1954 (Combined Weight*) (Lbs.)	Cont'r Statistics Man		
			Pre-1953	1953	
			Com- bined Cali- per (Ins.)	Com- bined Weight (Lbs.)	Com- bined Weight (Lbs.)
<u>Single -wall:</u>					
40	.028	75	.025	73	75
65	.032	84	.032	94	84
90	.046	138	.041	121	138
120	.060	180	.050	148	180
<u>Double-wall:</u>					
65	.033	92	.034	99	94
90	.041	110	.041	120	110
120	.048	126	.048	141	126
140	.076	222	.066	168	222
160	.090	270	.075	195	270

\* of liners, in pounds per thousand square feet.

142. In order to meet all these minimum specifications, the following grades of linerboard were required: 26, 37.5, 42, 69 and 90 pounds per M square feet. To meet continued demand for boxes made to earlier specifications, but now regarded as overstrength boxes, 47-pound liner was also required. The 74-pound .025 liner was no longer needed. Thus the number of grades now required were six as compared with the three formerly specified in Trade Customs. With respect to jute grades, Trade Customs had provided, and HINDE & DAUCH and GAIR had quoted up to 1953-4, only two grades: .016 caliper at 62-64 pounds per M square feet and .025 at 94 pounds. The uses to which these grades could be put in view of the introduction of the new kraft weights, and the new situation whereby kraft shipping containers actually conformed to the freight regulations, became much more limited. As soon as 42-pound kraft grade was made available by the kraft mills, so as to permit the manufacture of 65-pound boxes in accordance with the revised freight classification, HINDE & DAUCH wrote on March 4, 1954, the following letter to its customers, including GAIR, its competitor:

'We wish to advise that in view of the pending change in the Canadian Freight Classification, in which 200# text boxes will be permitted of manufacture from a combined weight of facings of 84#, we have deemed it expedient to reduce the price of our standard 100# Mullen test Jute Linerboard to meet anticipated competition which will be thereby created. Prices of all other grades of our shipping case materials will remain unchanged.

Therefore, effective with shipments on and after March 3, 1954, the price of this grade will be \$3.22 per thousand square feet, f.o.b. our Mills in Toronto, with full freight allowed to destinations in the Provinces of Ontario and Quebec.

As heretofore, our prices on all shipping case materials will continue to be those prevailing at time of shipment and subject to change without notice.'

(Serial A18287 4HDT)

143. This letter, written by Mr. Palm, states that it was the pending change in the Canadian Freight Classification which permitted the use of 42-pound board. This had been permitted by Informal Ruling A-1 since 1946, provided the board was of a caliper of .016 and met the Mullen test. What appears to be the correct position had been stated by Mr. Godden of BROMPTON in the following passage from his memorandum of September 16, 1949, to E. P. Wilson, his immediate superior:



'I fully realize that it costs money to produce a finish comparable to Bathurst's Liner, but believe that if we are to hold our position in this market we will have to face this fact. In this connection, the Bathurst Company, as you know, have already spent considerable sums of money in their mill, in order to produce a high finish sheet such as this, to take high gloss inks and have also, I am sure, had an eye to the future when we may be forced, through competition to produce both a Dry Finish as well as the high finish Board, which I believe is the condition that exists in the United States at present. The Industry, as you know, has however felt it advisable to refrain from using Dry Finish Board for the time being, as such a move would undoubtedly precipitate a major price war in this Industry. On the other hand, the mere fact that a Dry Finish sheet can be produced by the Kraft Mills has had the effect of keeping the Jute Mills in line and materially stabilizing this market. '

(Serials A25509-10 2LCM)

As stated above, the gauge lists in Trade Customs included a .016 caliper, 42-pound liner. This was a dry finish board (Serial 6443 CST). It was not supplied domestically. "

(Statement of Evidence, Vol.IV, pp.779-81)

From paragraph 141 of the Statement of Evidence, quoted above, it can be seen that in the manufacture of the 65-pound single-wall box as specified by the pre-1953 Container Statistics manuals, the total weight of the linerboards was heavier by ten pounds per 1000 sq.ft. of combined board than was required by the Informal Ruling A-1. The evidence indicates that the relative importance of the 65-pound single-wall box had been declining in the period from the time that Manual "B" was compiled and the time at which the 42-pound linerboard was introduced. Nevertheless, the 65-pound single-wall box was the most important single box not only throughout the period prior to the change in the Canadian Freight Classification's requirements but also after the change had been made. The fact that the 65-pound single-wall box was overstrength, combined with the fact that several of the other boxes were understrength, was probably a factor in the concentration of container production on the 65-pound single-wall box prior to 1954. That it was not the only factor is shown by its continued popularity even after the other boxes were brought up to the minimum specifications for the liners and the extra-weight characteristics of the liners in the 65-pound box had been eliminated. The saving in the weight of the liners used in this box effected a proportionate

reduction in the costs of the required linerboard and consequently in the total cost of all materials used in this box (Evidence, pp.194-99, 304-06, 400, 581-85, 792-98, 1753-55).

Prior to the adoption in Canada of the United States' specifications the next most important boxes were the 20-pound box and the 40-pound box in that order. After the introduction of the 37½-pound kraft liner in 1952 the importance of the 40-pound box increased. Witnesses examined regarding the period after the change in official specifications had occurred said that the second most important box was the 40-pound box and that the 20-pound box was third (Evidence, pp.304-06, 400, 581-85, 792-98, 1753-55).

The exact degree of decline in the importance of the 65-pound box during the years 1952 to 1955 cannot be stated exactly. One witness stated that the decline in its importance had begun prior to the introduction of the 42-pound liner (Evidence, p.1753). Another witness said that the importance of the 65-pound box was about the same after the change as before (Evidence, p.797).

It is clear that a lower weight of board would be required to make 65-pound boxes from 42-pound liners than from 47-pound liners. Similarly, the substitution of the 40-pound box for the 65-pound box also implied a reduced consumption by weight of linerboard. The substitution of the 40-pound box for the 20-pound box, however, implied an increase in the tonnage of linerboard used, as did the improvement of the 40-pound box itself. On the 20-pound box there was no change in the weight of linerboard required. While the remaining boxes were of minor importance individually and of minor importance as a group, there were increases in the weight of the liners used to meet the new specifications of some of them. (See Statement of Evidence, paragraphs 138 and 141, quoted earlier in this section).

Whether on balance the developments of these years resulted in an overall saving in the tonnage of board required to make this changing "mix" of containers, it is impossible to say. Obviously the answer depends upon the proportions in which the various boxes were produced both before and after the specific events mentioned in the foregoing and in the following paragraphs. The evidence on these proportions is not of a character which permits a definite conclusion on this question.

Prior to the change in the Canadian specifications, Hinde & Dauch made a large tonnage of jute board and was strongly against any change in the specifications.

The production, prior to the change of specifications, of only three grades of linerboard simplified the production and inventory problems of the board mills and container manufacturers in that the number of grades of board was kept at a minimum.

(c) The Record of Opposition

On December 10, 1947 the Chairman of the Canadian Freight Association wrote the manufacturers of shipping containers advising them of the proposal before the C.F.A.'s Classification Committee to revise Rule I of Canadian Freight Classification No. 19 dealing with the specifications of fibreboard shipping containers. The letter indirectly urged the container firms to send representatives to meetings of the shipping container industry arranged by Mr. F. C. Hayes and designed to make submissions on this matter to the Classification Committee (Serial 21629 2SPL).

Wartime Prices and Trade Board Order 777, effective December 31, 1947, rescinded the previous order A-123, which had restricted production of board to three calipers. While in force order A-123 made compliance with Informal Ruling A-1 impossible for container manufacturers using Canadian board.

On March 30, 1948 Mr. Hayes wrote to Mr. George Pincott, Secretary of the Board Section, Canadian Pulp and Paper Association, indicating that Container Statistics had been delegated to draft and submit proposals covering new Canadian specifications for corrugated cartons and asking the Board Section at its coming meeting of April 6, 1948 to consider the formation of a committee to work with him (Hayes) on a specification suitable to the Board Section and the carton manufacturers (Serial A35147 BNG - Part Exhibit 50).

The minutes of the Board Section's meeting of April 6, 1948 show that the following committee was appointed to discuss the matter with Mr. Hayes:

G. T. Cockerill of Bathurst  
H.J. Daubney of Gair  
B.E. Finlay of Strathcona  
R.C. Godden of Brompton  
W.H. Palm of Hinde & Dauch

Later documents show that the membership was expanded to include G.H. Fisk, representing Mr. Pim of Pacific Mills, and a representative of Canadian Boxes (Serials A35148 BNG - Part Exhibit 50; A35145 BNG - Part Exhibit 50).

This Board Committee with all members present, including Mr. Fisk, met on April 27, 1948 in Toronto under the chairmanship of Mr. Palm. The meeting decided to recommend to Mr. Hayes for use in his draft specifications the following grades of liner board:

	Minimum Average Mullen	Minimum Average Weight
.009 Kraft, Dry Finish	50	26
.016 " Water "	100	47
.025 " " "	135	75
.016 Jute	100	64
.025 "	135	94

These were communicated to Mr. Hayes (Serials A35150-51, A35158-59, A35160-64 all BNG - Part Exhibit 50).

The conservative character of this proposal is obvious: the calipers listed were those in production at the time. The minimum average weights specified were either the same (the first, second and fifth grades listed above) as those of the grades then being produced, or heavier (items 3 and 4). Had this proposal become operative, the effect in the cases in which heavier weights were specified would have been to sell heavier, and therefore more expensive, board. The minimum average Mullen tests of two grades (the third and fifth) were 10 lb. higher than those of the same calipers then produced.

A very detailed account of this meeting of April 27 was written by Mr. Fisk to Mr. Pim, and dated April 28, 1948. It shows that Mr. Hayes joined the meeting by invitation after the first one and three-quarter hours. Extensive quotation from this document is justified, for the minutes reveal clearly the attitudes and interests of the board-manufacturing firms, attitudes which were not to change materially over the next six years of discussion and negotiation.

". . .

3. Mr. Daubney stated that he personally had not heard of any damage claims in Canada whereas he understood there had been a number of such claims in the United States. He asked if any of the others present had heard of Canadian claims; none had. Mr. Daubney then suggested that box manufacturers might be regarded as being satisfied with the industry's present standards. It was suggested that this viewpoint be reported to Mr. Hayes.

4. Mr. Palm expressed the view that the main thought in Mr. Hayes' mind was to eliminate tolerances and use minimums. The meeting did not feel that this would be acceptable to the industry. Mr. Godden expressed the opinion that removal of tolerances would be disastrous to the industry.

5. Mr. Palm suggested that in view of the lack of damage claims that the industry could well take the position that its present



standards were adequate; in which case he felt that the industry should stand pat and do nothing further in respect to this matter at present.

6. It was pointed out that most combinations used in box construction were satisfactory with the exception that 2/.025 and 1/.009 would not give the required 350 lbs. test. It was pointed out that in the United States, 2/.030 gave 350 lbs. It was also noted that it was not practical to make .030 in Canada except possibly in certain rare cases.

. . .

12. The discussion then turned to page 25 of the booklet, 'Trade Customs of the Paper Industry in Canada' as issued by C.P.P.A. in August, 1946, (copy attached).

13. Mr. Daubney suggested a 47 lb. minimum weight (see last column of Gauge List No. 9). Mr. Cockerill expressed the view that a manufacturer should not be 'forced' to maintain a 47 lb. minimum. He reported that he had made material of a 42 lb. weight which gave a test of 109 and proved quite satisfactory.

. . .

15. After further brief discussion, Mr. Palm, as Chairman, asked the meeting if .009 and .016 as presently set out in the Trade Customs Book (page 25 attached) were satisfactory. All agreed that this was so. It was then decided that Mr. Hayes would use these specifications in making up his box specifications.

. . .

17. In reply to a question, Mr. Hayes expressed the understanding that Pacific Mills did not make 42 lbs. and did not wish to do so. Mr. Palm said he did not want the 42 lb. weight left in. Mr. Daubney expressed a similar wish. Mr. Cockerill stated that he wanted the 42 lb. weight left in as his mill was making this weight for the English market.

18. Referring to Gauge List No. 8 on Page 25, Mr. Daubney said that he wanted this jute list included in the data given to Mr. Hayes. He further suggested that the weight for .016 presently shown as 62-64 lbs. be changed to read 64 lbs. Mr. Palm expressed agreement with this. No one present objected.

. . .



20. Mr. Palm, as Chairman, then turned the attention of the meeting to the .025 caliber and referred to the fact that the 350 lb. box appeared to be the trouble. He observed that combining two liners and one corrugated was not satisfactory. Mr. Hayes expressed the view that the 350 lb. weight could be washed out entirely if necessary. Mr. Cockerill suggested that the minimum test for .025 should be increased to 135 lbs. Mr. Daubney said he would have to run up to .027 or more to get 135 lbs. Mr. Godden said he ran his material to 74 lbs. but did not know if in so doing the test exceeded 125 lbs. Mr. Hayes stated that in the United States caliber .030 is used and 350 lb. test is obtained.

21. After some further discussion on this point Mr. Palm asked Mr. Hayes if the 350 lb. could be reduced to 300 lbs. Mr. Hayes replied that he thought this could be done satisfactorily. It was then suggested that  $2/130$  plus  $1/40$  would give 300 lbs. but that the margin would be a very thin one.

22. Mr. Cockerill enquired, if 350 lbs. was reduced to 300 lbs., would the United States railways accept the 300 lbs. for international shipments? Mr. Hayes replied that the railways would accept it.

. . .

25. Mr. Palm, as Chairman, then asked the meeting what was their wish in respect to the .025 caliber. Should it have a test minimum of 125 lbs. or higher? The general view was that the test minimum should be chasing 140 to be certain of reaching the 300 lb. objective. Mr. Daubney then phoned his office and ascertained that his mill was running between .024 and .025 and getting a test minimum of 129 to 130 with a weight of 93 to 94 lbs. Mr. Cockerill stated that he was now getting 135 lbs. test on .025 caliber but admitted that his machine was running slow. Mr. Daubney suggested that it appeared to be a choice, whichever is most economic, between (a) supply a better furnish, or, (b) increase the caliber, in order to get a test of between 135 to 140 lbs.

. . .

27. After careful consideration, the meeting expressed the view that it would be necessary for the industry to supply .025 caliber that would show a test minimum of 135 lbs. in order to get a 300-lb. box.

28. As a result of further discussion, Mr. Hayes suggested that it would be satisfactory to take out the last line of Gauge List No. 9 on page 25 of the Trade Customs booklet. This line now reads .030 caliber, test minimum 135 and 93 lb. weight. The meeting decided to do this and the attached booklet has been so marked.

Note: All of the above reference to changes to be made to Page 25 of the attached booklet are related only to recommendations being made to Mr. Hayes for his present study and do not apply to other uses for Trade Customs Booklet.

. . .

'SUMMARY OF CONCLUSIONS REACHED'

1. The meeting authorized Mr. Hayes to proceed with his work on the basis of the figures, with the revision indicated above, on page 25 of the C.P.P.A. Trade Customs Book.
2. Mr. Hayes will do this and again contact the Committee in approximately two or three weeks' time.
3. Additional suggestions (particularly from Mr. Pim, the only member of the Committee not present at the meeting) will be considered by the Committee and also by Mr. Hayes.
4. The 'timing' of these proposed actions indicated that this overall problem will probably not be finalized until late this summer or next Fall, i.e., there is ample time for any member of the Committee to reopen discussion on any point should he wish to do so.

. . . "

(Serials A35160-64 BNG - Part Exhibit 50)

This matter was discussed further at a number of meetings of the Board Section (Serials A25294 DCT, A25298 DCT; 25318-20 MPA) and a meeting of members of Container Statistics Limited (Serials 2982 GCT; 12143-44 CBT). The conflicting interests of the kraft and jute manufacturers were reconciled (Serial A35167-213 BNG - Part Exhibit 50). Mr. Palm made a final report to the Board Section on May 5, 1949, in part as follows:

" . . .

Item (a) The Committee is unanimous in recommending no change be made in the existing specifications for corrugating and linerboards, as presently shown in Canadian Freight Classification No. 19, Supplement #6, Page 1, except that .030 facing should be changed to read .025. Minimum test per square inch would remain 135 lbs.

. . . "

(Serials A35208-10 BNG - Part Exhibit 50)

As the C.F.A's Classification specified caliper only, this recommendation left the question of minimum weights open. Thus the interests of the jute and kraft producers were reconciled: the jute mills would be free to manufacture as before, but the kraft mills could manufacture .016 liner in either a 47 lb. or a 42 lb. weight at their option.

Maritime had favoured the inclusion of the 42 lb. specification in the industry's proposals to the C.F. A. (Serial 23500 MPH). Mr. Hayes's reply of April 8, 1949 reveals the purpose of the committee's recommendation:

". . .

I have noted your comments in reference to the Canadian Freight Association. You must appreciate that the argument between the 42 lb. and the 47 lb. is theoretical, as at the present moment I do not believe the Canadian mills have any intention of making 42 lb, but rather that they wish to have 42 lb. in the record so that if, at a later date, they decide to make it, there will be nothing in the freight classification to prevent its use.

. . . "

(Serial 23503 MPH)

From Mr. Hayes's letter of June 15, 1949 to Pacific Mills, it is evident that the board mills' proposals had been submitted to the shipping container manufacturers ("corrugators") for discussion and amendment before being passed on to the Canadian Freight Association. The letter said in part:

"We acknowledge your letter of June 9th in which you list some comments on the proposed Freight Classification Rule No. 1, and I am very glad to give you our answers on these subjects. Before doing so, I wish to explain the basis of this proposal. There were a great many points brought up by both railroad officials and the corrugating manufacturers in the year which preceded the issuance of this proposal, and many items have been included in the proposal which will, of course, be subject to further discussion in general meetings. . . .

. . . "

(Serials A35218-19 BNG - Part Exhibit 50)

The letter went on to explain the expected procedure to be followed by the C.F.A., railways, and corrugators in arriving at a proposal, and then in getting the views of shippers, Boards of Trade, and the Canadian Manufacturers' Association.

About a year later the Canadian Freight Association rejected the industry's proposals. This is shown in Mr. Hayes's letter of May 12, 1950 to Corrugated Paper Box:

"Referring to the proposal for revision of Rule 1 under Classification 19, we have received under date of May 10th information from the Canadian Freight Association, which we quote as follows:-

'Our Classification Committee has now concluded its study of this subject and as it has been indicated that no difficulty is being experienced by carriers under the application of the present rule in the Classification, as amended, that your proposal for revision should be declined. Committee are also of the further view that the present was not an opportune time to make any revision in this Rule and such action should be subject to further consideration when re-issue of Canadian Freight Classification No. 19 is dealt with. '

We have written the Association, stating that we do not agree with their findings that Freight Classification No. 19 is adequate, but question as to what further action should be taken on this subject.

We will be very glad to have your comments and suggestions for future action."

(Serial 24305 CPO)

Additional reasons for the board industry's opposition to the Canadian Freight Association's Rule 1 under Classification 19 are revealed in a letter dated February 21, 1951 written by Mr. Godden of Brompton to F. D. Taylor of that company's mill at Red Rock. This letter said in part:

"Re: Martin Paper Products Limited

. . . For your information, I have a proposed set of the new railroad specifications which the mills as a group are at



present fighting, but these specifications call for both basis weight and caliper and insist that minimums are mentioned in all cases and that any Board found to be below .009, .016 and .025 in caliper, or below minimum basis weights of 47# for .016 and 26# for .009, etc., will be rejected. These are very rigid specifications. They are demanding that the Industry adopt the American specifications which call for six different calipers of liner and, as previously mentioned, minimum weights and calipers in all cases.

Needless to say, this move if made effective will cost the mills a great deal of money and will mean that the Corrugators will have to carry stocks of different calipers of Board. I am telling you this because this very point we are discussing came up at every turn at the meeting, namely, that Board is being produced and sold in Canada for corrugated boxes that does not come up to the minimum specifications of .009, .016 and .025. I am quite willing to admit that the specifications they are asking for are antiquated and will not produce what the railroads are trying to arrive at, however, they are in effect in the States and apparently they feel that they are more satisfactory and give the carriers more protection than the specifications covering Canadian boxes.

. . . "

(Serial A26214 LCO)

The proposal to revise Classification 19, Rule 1, apparently was revived early in 1952. On February 6, 1952 Mr. Hayes wrote the following letter to the Canadian Freight Association:

"We have heard through unofficial sources that your Association has appointed a special Committee to revue [sic] and revise Canadian Freight Classification No. 19, Rule 1, and that this Committee is headed by Mr. Aiken Walker of the C.P.R., and Mr. Charles Murray of the C.N.R.

If the above information is correct, we are indeed very interested in it, as under File C-302-0 we submitted to your Association on June 10th 1949 a suggested new Rule 1 as far as the corrugated and solid fibreboard box section is concerned. At that time this submission had the unanimous approval of all Canadian manufacturers of corrugated cartons.

My principal reason for writing you at this time is to secure, if possible, the correct address of the chairman, or chairmen, of this new committee, in order that we may contact them to see if we may assist them on this subject, which we feel is long overdue for revision. I would like to secure the proposed procedure of the



committee in order that I might re-present this subject to the various carton manufacturers of Canada, to see if there are any new developments which they feel would cause additions or alterations to our original proposal. "

(Serial 3856 GCT)

Mr. Cockerill's letter of February 11, 1952 to the Canadian Freight Association, written after his receipt of Mr. Hayes's letter of February 6, disapproved of the stand taken by the industry in the previous year, and indicated that Bathurst favoured the adoption within Canada of the U.S. classifications as a whole.

"Mr. F. C. Hayes has kindly sent us a copy of his letter to you of February 6th.

While we understand from the last sentence that Mr. Hayes will be referring the matter further to the various carton manufacturers, we do wish to take this opportunity to advise you that so far as our wholly-owned subsidiary companies (Kraft Containers Ltd. of Hamilton and Shipping Containers Ltd. of Montreal) are concerned, we no longer approve of the suggested Rule No. 1 as submitted to you by Mr. F. C. Hayes on June 10th, 1949, under File C-302-0.

Developments within the industry have brought us to the conclusion that the progressive attitude of the United States Railways, in conjunction with the boxmaking industry and the shippers of goods, should be adopted in Canada and that the Freight Classifications, so far as corrugated shipping cases are concerned should be similar in both countries.

Already under an informal ruling mutually agreed upon between Canadian Freight Association and the Consolidated Freight Classification Committee boxes made under Rule 41 are accepted within Canada and it is our opinion that this should no longer remain as an exception within Canadian Classifications, but that the U. S. Classifications should be adopted as a whole.

This letter is merely an advice to you of our own opinions and, by the time these matters reach a stage for joint consultations we will have prepared ourselves recommendations covering the matter in full, which we hope will be concurred with by the rest of the industry. "

(Serial 3857 GCT)

Discussion and correspondence continued. Mr. Hayes wrote a comprehensive, undated, memorandum "NOTES ON CANADIAN FREIGHT CLASSIFICATION", and circulated it widely among the board mills and corrugators (Serials 12451-60 CBT; 20531-40 LCM). Other evidence shows that this memorandum was circulated before April 3, 1952 (Serial 3904 GCT). After briefly reviewing the history of the negotiations and the industry's proposal of 1949 and the recent withdrawal of support for this proposal by "certain carton manufacturers", he went on to say it was rather useless for the carton manufacturers to spend much time attempting to decide what the specifications of the Canadian Freight Classification should be until the board mills had made known the specifications of the grades of board they intended to manufacture. The memorandum continued:

" . . .

It would appear to us that a consolidated unanimous recommendation is a necessity if the corrugated carton industry wish to have their opinions considered by the Classification Committee, and even then they may have a difficult time convincing the Committee that some of the suggestions made in our brief are correct. If the industry approaches the Committee divided into two or more groups, each with a widely divergent opinion, then the Committee will be wise enough to realize that the carton manufacturers are embroiled in an industry argument with definite axes to grind, and will pay little or no attention to either faction, but rather will establish a Classification which the industry must comply with, whether they like it or not.

. . . "

(Serials 12451-60 CBT)

Further material in this memorandum is described as follows in the Statement of Evidence:

"158. . . .

Then follows the main heading Comparison between Current American and Canadian Freight Regulations, . . ., followed by Compliance with Current Canadian Freight Regulations, . . .. Mr. Hayes then developed theoretically possible specifications for boards and boxes and discussed them in relationship to possible costs and prices, arriving at the idea of confining kraft board to three weights: 30, 45 and 90 pounds. At these weights the specifications of maximum weight of box and contents, the maximum dimension limit, and the Mullen, as contained in both the U.S. and Canadian freight rulings would be met and Canadian Informal Ruling A-

would be revised to drop the caliper specifications and substitute the new weight specifications. Although the memorandum does not say so, it would also have rendered many containers of U. S. manufacture ineligible to move over Canadian lines. . . . "

(Statement of Evidence, Vol.IV, p.793)

There followed a list of arguments pro and con the desirability of the 42-pound liner and the question of the adequacy of the boxes made therefrom.

Certain documents indicate that by early 1952 Pacific Mills and Bathurst were actively considering the production problems and the enlarged number of calipers which adoption of the U. S. Classification would entail.

On March 13, 1952 Mr. Weldon of Bathurst had discussed the problems with Mr. A. M. Dunn of Canadian Wirebound, who made the following handwritten notes of the interview:

"26 lb. - 9 pt. from Hardwood		
only good for Corrugating		
26 lb. - Water finish		[Marginal note]
37½ lb. - Water finish	<u>Would give</u>	against.
	7 Calipers	3
42 lb. - -- --		<u>now</u>
47 lb. - -- --		
69 lb. - -- --		
90 lb. - -- --		
each to have a separate price		

(reasons)

- 1 - The Canadian Dollar at par - will give us severe competition from U.S. in view of their large production of Board Materials and Cartons.
- 2 - It is progress to come partly up to the U. S. Standards - We can be criticized [sic] for holding to our 3 Calipers. U. S. Branches in Canada complaining. It leaves us open for criticism on [sic] as Combine if we do not make some changes.
- 3 - All to be done by an agreement."

(Serials 12390-91 CBT)

Other documents, cited in section (d) of this chapter, show that in February, 1952 Bathurst began the production of a 37½-pound liner.

Mr. R. G. Armstrong of Canadian Boxes discussed these problems in a series of telephone conversations with Eastern Canadian manufacturers, and reported to Mr. Pim by letter of June 16, 1952 (Serials A35236-37 BNG - Part Exhibit 50). Much of this letter provides evidence confirming points which have been attested to by other documentary evidence cited earlier in this report, e.g., the opposition of Hinde & Dauch to the adoption of the U. S. Classification and the reasons herefor, and the unenthusiastic attitude of Gair. The following excerpts are significant. They indicate the opposition to the proposed revision by almost all corrugators except those owned by Bathurst, the added costs involved in producing a 40-pound carton which would come up to the minimum standards of the U. S. Classification, and Pacific Mills' start on the study of production problems of 42-pound liners.

" . . . Mr. Winchell also advised that Mr. F. C. Hayes of Container Statistics and practically all other converters, with the exception of those controlled by Bathurst, are against the proposal.

It was also pointed out that in meeting the American Freight Classification for the single wall 40 lb. carrying capacity case, two 37½ lb. basis weight kraft liners can be used. We were informed that on the 37½ lb. basis weight kraft liner, to meet the Mullen test range of 85 to 90 pounds per M Sq. Ft. Bathurst had to go into the wet finish. It seems that going into the wet finish has increased the cost per ton by \$12.00 and they have proposed to pass this increased cost along to the converters. The converters are in a position where they do not feel they can increase the cost of corrugated shipping cases and naturally they are strenuously opposing the proposed change in the Classification, which would result in an increased material cost.

. . .

It is our belief that the proposal should be allowed to stand entirely on its merits but we should be absolutely sure that we can meet the American Freight Classification requirements in every way. We have been discussing the running of kraft liners with a 42 lb. basis weight and a minimum Mullen test of 100 pounds. We have not, however, completed the converting of the light weight liners but this will be done immediately. After we have used the 42 lb. basis weight liners on our corrugator we will then know whether we have any converting problems.

. . . "

(Serials A35236-37 BNG - Part Exhibit 50)



Further evidence of Pacific Mills' study at this time of the production problems involved is shown in these excerpts from a letter of Mr. Pim to Mr. Cockerill of June 17, 1952:

"I can now see that we are not going to be able to give you a quick answer to the various problems as the matter seems to become more involved all the time.

One, of course, cannot do other than commend you for the initiative you have shown in trying to bring this to a head, but after all it does seem this is a problem requiring further consideration by the Industry as a whole. I am wondering if, by this time, all the manufacturers of Board are unanimous in the recommendation you make. If so, of course, I think we would have no other course than to come along. It certainly is an important item and I would hesitate to think that quick and independent action will be taken by the railways in revising the classifications, at least for two or three months.

I should like to assure you of one thing, that as a result of your conversation with me in Montreal and recent letters, the whole thing has been given a thorough airing here and very extensive tests are being made but unfortunately these are taking longer than I had anticipated. Nevertheless, I am very glad the men are going into these matters so thoroughly. "

(Serial A35238 BNG - Part Exhibit 50)

A letter written by Mr. Hayes to Mr. Pim on June 25 contains the following paragraph:

". . .

It is being forwarded to you for record purposes only as no decision was arrived at during this discussion. At the moment, there is undoubtedly a proposal put forward by Bathurst to adopt the American Weight Basis and Specifications for the Canadian Freight Classification and the above mentioned companies as well as yourself must eventually either go along with the Bathurst proposal or must present to Bathurst a counter proposal or proposal in order that we may find out whether it is possible to present as an industry a unanimous finished proposal to the Classification Division Committee. This whole matter is not a question of just board weights, but a question of board costs and they both appear to tie in so closely together that they must be both settled together.

". . . "

(Serial A35244 BNG - Part Exhibit 50)



The Statement of Evidence comments on the pages which were attached to this letter, as follows:

"163. . . .

And the attached memorandum, headed 'Information on Board Specifications for Revised Rule 1' and dated June 23, 1952, gave 'possible board weights and costs for board to be used as liner'. These 'costs' were actually per ton prices for board of different weights, and Mr. Hayes appended a note in his characteristic hand-printing: 'PRICES MENTIONED ARE MERELY SUGGESTIONS TO START WORKING FROM'. Then prices for boxes of different specifications were worked out on these suggested board costs and a comparison made with 'present S.P.', i.e. present selling prices on boxes. Mr. Hayes's suggestions for board prices yielded a series of different amounts per ton, as against the existing price structure which usually yielded the same amount per ton regardless of the grade of kraft board involved and regardless of whether 42, 43, 44, or 54-pound liner were used in a 65-pound box, he proposed that the mills should charge the same price per M square feet and the box-makers should charge the same prices for the resultant boxes (Serials A35245-8 BNG - part Exhibit 50). . . .

(Statement of Evidence, Vol.IV, pp.796-97)

On July 25, 1952 Mr. Hayes circularized the industry with a letter (Serial 12400 CBT) to which was attached a memorandum (Serials 2414-17 CBT) and a "draft copy" of three alternative proposals (Serials 2401-13 CBT). Alternative "A" was the same as the U. S. specifications, "B" was based on the use of the 30-pound, 45-pound and 90-pound boards proposed by Mr. Hayes, and "C" was left blank for further alternative proposals. The memorandum stated, with regard to the Canadian Freight Association's Classification Committee, ". . . this Committee are quite familiar with the fact that some Carton Manufacturers would like to have the Canadian Freight Classification be identical with the Consolidated Freight Classification of the United States, while on the other hand, other Companies are more in favour of following our original proposal of 1949". The memorandum said further:

". . .

This Section 2 will undoubtedly be the one where considerable difference of opinion will develop and will have to be ironed out wherever possible. We are listing this Section in triplicate - one copy has been filled in according to the Consolidated Basis - one copy has been filled in according to a local proposal, which we shall call 'B' and one copy has been left blank, in order that you may develop your own proposal for returning to us if desired.

We would ask that if you are going to make a proposal that you also fill in the blank space on the following sheet which is headed 'Data in reference to Section 2 Page 2.'

. . ."

(Serial 12415 CBT)

The following sheet included the notation "PLEASE STATE PREFERENCE [sic] OR FILL IN PROPOSAL 'C' AND RETURN".

This material had been submitted to Bathurst at an earlier date, for Bathurst wrote a letter to Mr. Hayes on July 16, 1952, and sent copies to at least Gair and Pacific Mills, which indicated the support of Bathurst and its two subsidiaries for Mr. Hayes's proposal and the adoption of the U. S. Classification. It revealed also the reason for Bathurst's position on this matter:

"We have given careful study to the Draft of Rule 1 and have to advise you that so far as the Bathurst Company and its two subsidiaries, Kraft Containers Ltd. and Shipping Containers Ltd., are concerned we approve of the Draft of Rule 1 including Proposal 'A' of Section 2.

We note that in the 'data in reference to Section Page 2' you show a test of 80 for the suggested  $37\frac{1}{2}$  lb. liner. This should be 85/90.

I believe you are fully aware of what we consider one of the major objectives of Proposal 'A' of Section 2, but as it is not included in your 'Notes on Proposed Rule 1' it might be suitable to outline it further in this letter.

We feel that in Canada there should be uniformity with the Consolidated Freight Classification of the United States and therefore uniformity in North America.

Boxes manufactured in the United States are flowing freely with goods throughout Canada and sheer basic competitive requirements necessitate that Canadian boxplants and mills should not be handicapped in their competition with United States producers.

Do you wish us to return to you any of the papers you sent to us in connection with the draft of Rule 1?"

(Serial 4025 GCT)

Mr. Hayes's reply of August 11, 1952 stated his opinion that rapid solution to the problem of getting a statement or opinion from the carton manufacturers lay in first getting an arrangement through the board industry after which he could call a meeting of the container industry (Serial A25662 BAM). He had indicated that he would be glad to come to the west after August 20 to see Mr. Pim of Pacific Mills (Serial A35244 BNG - Part Exhibit 50). This was in order that the board industry should have some indication of the latter's ideas (Serial A25662 BAM).

Mr. Hayes attended a meeting with representatives of Canadian Boxes in Vancouver on August 26, 1952. The following extracts from the minutes of the meeting clearly indicate that Canadian Boxes was pressed by American competition and would support the adoption of the U. S. Classification in order to counter the advantage of the American carton producers in manufacturing from lighter weight boards. Canadian Boxes' stand was largely the same as that of Bathurst.

" . . .

The meeting was opened with a brief explanation of Canadian Boxes Limited position in the B. C. container market. It was noted that during the three months of last year, while the strike was in progress at our plant, an opportunity was presented to American manufacturers to supply the B. C. market. From that time to the present the U. S. exchange situation has undergone a change from a 10% premium on U. S. funds to a discount of  $3\frac{1}{2}$  to 4%. In addition to this, the grades supplied by the American manufacturers have presented a problem in the competitive field with respect to grades of materials used in the manufacture of shipping cases. This has particular reference to the 20 lb. carrying case with 125 pound Mullen test and the 40 lb. carrying capacity case with the 175 pound Mullen test. The American converter is presently supplied with  $37\frac{1}{2}$  pound and 42 pound basis weight Liners. This places us at a competitive disadvantage, particularly in the 20 and 40 pound carrying capacity cases, as mentioned above.

Under the circumstances, to remain competitive it would be necessary for Canadian Boxes Limited to have materials used in the 20 and 40 pound carrying capacity case up-graded so that we could remain in competition with American suppliers in the B.C. market. This action would have to be taken whether there was any change in the Canadian Freight Classification or not.

. . . "

(Serials A35264-66 BNG - Part Exhibit 50)

Mr. Hayes outlined the history of the negotiations between himself and the Canadian Freight Association and explained the division of interests between the kraft and jute mills of Eastern Canada in view of which he thought that any submission by the industry would have to be a compromise.

The position of Canadian Boxes was clearly stated:

" . . .

The conclusions arrived at by Canadian Boxes Limited were then outlined to the meeting. Under the present conditions existing in the B.C. market we would propose continuing with a 26 pound basis weight corrugated kraft medium. We would propose the adoption of a 30 pound basis weight kraft medium with the surface of the liners sized and this would be used in the manufacture of the 20 pound 125 Mullen test corrugated shipping case. We also propose the adoption of a  $37\frac{1}{2}$  pound basis weight kraft liner to be used in the manufacture of 40 pound carrying capacity, 175 pound Mullen test corrugated shipping cases.

We would also support the adoption of the 42 pound basis weight kraft linerboard to replace the present 47 pound basis weight kraft and this would be used in the manufacture of the 65 pound carrying capacity case with a 200 pound Mullen test.

We would also support the adoption of a 69 pound basis weight Kraft Liner to be used in the manufacture of heavy weight Corrugated shipping cases.

Mr. Hayes then remarked that our proposals pretty much coincide with those of the Bathurst Pulp and Paper Co. and their suggestion that the American Classification be adopted in Canada. The only exception to this was our proposal that the 30 pound kraft liner with size be manufactured for use in the 20 pound carrying capacity case with a 125 pound Mullen test.

The opinion was expressed that it would be doubtful that Bathurst could manufacture the 90 pound basis weight kraft liner in a satisfactory sheet and the meeting was advised that Canadian Boxes Limited is not interested in this liner as we are unable to make a satisfactory sheet on our Fourdrinier paper machine at Ocean Falls, due to lack of adequate drying capacity.

. . . "



Procedure to be followed by Canadian Boxes was recorded:

" . . .

It was suggested that within the next few weeks we forward our proposals in writing to Container Statistics Limited, incorporating the basis weights and specifications which we would support in any revision of the Canadian Freight Classification. Mr. F. C. Hayes also suggested at the same time that we forward our recommendations of a fair selling price for these boards, when manufactured into corrugated shipping cases.

. . .

Mr. F. C. Hayes advised that if there was any further information which he could supply we could contact him at Container Statistics Limited in approximately three weeks time, when he expects to be back in Toronto."

(Serials A35264-66 BNG - Part Exhibit 50)

On August 28 Mr. Hayes sent a handwritten note to Mr. Cocker-  
ll indicating the four grades of board favoured by Canadian Boxes  
(Serial A25665 2 BAM).

A number of documents reveal plans of board producers for  
a meeting around the end of September or early October (Serials  
A 25663 2BAM, A25664 2BAM; A35269 BNG - Part Exhibit 50; 4030 GCT;  
A26264-65 LCO).

Around this time the final attitudes of a number of the box  
makers and board mills were put on paper. Mr. Hayes had circulated  
notice of a meeting to be held on November 13 to discuss the weight  
basis. Mr. J. A. Whealy of Corrugated Paper Box replied on November  
8, 1952. His reply indicated that he would have to support the position  
of his supplier, St. Lawrence, but was of the opinion that the Classification  
Committee of the Canadian Freight Association would have to make the  
decision (Serials 24328-29 CPO).

Mr. Godden of St. Lawrence gave that firm's final view of the  
subject in a letter to Mr. R. K. Watson, Chairman of the Canadian Freight  
Association, dated November 5, 1952. (Mr. Hayes's proposal "A" was  
the U. S. Classification requiring five grades weighing 26, 37.5, 42, 69  
and 90-pound respectively. Proposal "B" required three grades of 35,  
40 and 90-pound respectively. Proposal "C" had evolved into a plan  
for three grades weighing 28, 47 and 91-pound respectively.) After  
indicating that St. Lawrence could manufacture liners which would permit



corrugators to comply with all specifications in Proposals "A", "B", and "C", he indicated a preference for Proposal "C" (Serials 12444-45 CBT).

A letter from Mr. Dunn of Canadian Wirebound to Mr. Godden of St. Lawrence, dated November 19, 1952, indicated that Mr. Godden in a previous letter had favoured Proposal "C" and that Mr. Dunn also favoured it (Serials 12463-64 CBT).

The meeting called by Mr. Hayes for November 13, 1952 was held. The minutes indicate that the Classification Committee, in view of the inability of the board industry to put forth a unanimous recommendation, had decided to write the five large integrated board and box mills, plus Dryden, to ask them to submit their views on Proposals "A", "B", and "C" directly to the Committee. Mr. Hayes gave the opinions of several companies not present at the meeting as follows:

" . . .

Martin Paper Products Ltd., Winnipeg:

Our recommendation is as indicated - 'Three liners - 30 lb. - 45 lb. - 90 lb.' (This is Proposal 'B').

Wilson Boxes Ltd:

We have finally decided that our preference would be the three boards - 30, 45 and 90 (this is Proposal 'B'), but of course if the Bathurst Company establishes Proposal 'A', we may find it necessary to go along with them.

Maritime Paper Products Ltd.:

No comment.

Canadian Boxes Ltd.:

Are in favour of Proposal 'A', with one exception - would prefer the light board listed in 'A' as 26 lb. to be increased to 30 lb.

Dryden Paper Co.:

Said to be in favour of Proposal 'A'. No written comments received.

. . . "

(Serials 24324-25 CPO)

This meeting decided on the following action:

" . . .

After considerable discussion, it was moved and seconded that the Chairman request each manufacturer of corrugated cartons not specifically requested by the Classification Revision Committee, to write him a short brief giving their reasons for or against the proposals 'A', 'B' or 'C', and that the Chairman should transmit this information to the Classification Revision Committee, together with information as to the approximate percentage of the total volume that each manufacturer represents.

. . ."

(Serials 24324-25 CPO)

Evidently Mr. Hayes followed this directive, for he received letters indicating various firms' preferences in the latter part of November.

Maritime was opposed to "A" and preferred "B" to "C" (Serial 23445 MPH).

Canadian Wirebound clearly favoured Proposal "C" on the grounds of safety and lower costs of inventory (Serials 12465-66 CBT).

Corrugated Paper Box favoured the making of three liner stocks only, .009 for 125 test boxes, a 45-pound liner for 200 test boxes, and a strengthened liner for 350 test boxes, the actual weights, tests and calipers to be decided by the board manufacturers and the Classification Committee (Serial 24327 CPO).

Gair favoured Proposal "C" (Serials 4106-07 GCT).

Wilson favoured Proposal "A" (Serial 22136 WBF).

A memorandum dated January 9, 1953 and found in Gair's files shows that at one point the Classification Committee favoured the adoption of Proposal "B".

"Re Freight Meeting - Montreal, January 7th, 1953

Rule One, Classification Proposal 'B' has been adopted by the committee and is now in printed form ready to be presented to the users and commission for approval. However, the Bathurst Company have gone on record by a letter to the committee that they will take same higher up to the commission. This was brought up by Stuart Brown of the C.M.A.

The Campbell Soup representative asked the question why the 42-lb. boxes would not be satisfactory. Mr. Harper of Gair Company Canada Limited mentioned the damage claims which took place in the United States last year and the claims chiefly consisted of canned goods shipments.

The Swift Canadian freight representative claimed that they were chiefly interested in a satisfactory carton package which would carry their goods to the destination without claims.

It would seem that proposal 'B' is more or less favoured by the committee, but no doubt further reports will be forthcoming."

(Serial 4072 GCT)

The final result of these years of negotiation is described in the Statement of Evidence as follows:

"184. Circulars issued by KRAFT CONTAINERS and SHIPPING CONTAINERS show that by March 1, 1954, the Canadian Freight Classification Committee had finally decided, following a joint application of BATHURST and its subsidiaries, to submit the revision to the Board of Transport Commissioners and that it was expected to become operative on or about April 1, 1954. These and other companies' circulars announce consequent revision in specifications and prices effective about the end of March 1954 (Serials 69389-91 3SPL, 97928-30 3CBT, 29783-5 3HDT, 97931 3 37116-7 and 7A 2GCT, 37139 2GCT). Canadian Freight Classification No. 20, approved by the Board of Transport Commissioners, and effective March 1, 1955, includes the new Rule 41, which coincides with the specifications of the U. S. Consolidated Freight Classification as promulgated in 1944. Thus BATHURST's views prevailed over the majority of the shipping container industry."

(Statement of Evidence, Vol.IV, p.810)

(d) Changes in Specifications of Boards Manufactured

In December, 1950 Bathurst began production of a semi-chemical corrugating medium termed "Bathurst Corrugating Medium" (sometimes abbreviated to BCM). The circumstances preceding Bathurst's move are described as follows in the Statement of Evidence

"188. During the period before the revision in the Freight Classification, there had already been some departures from Trade Customs arising from the initiative of BATHURST. Trade

Customs had listed only one .009 caliper kraft board, and this was shown as a corrugating board having a basis weight of 26 pounds. As mentioned above, however, this board had been used by the corrugators as a liner in 20- and 40- pound boxes, and Mr. Hayes was of the opinion it was not a good corrugating medium. It was also mentioned above that in the United States both kraft and straw corrugating medium have been largely displaced by semi-chemical grades. Such a grade, which is strictly a corrugating medium and can not be used as a liner, was first made in Canada by ABITIBI starting about 1947. At first all was exported (Serial A18119 4HDT). Starting in 1948, however, a small but increasing tonnage was sold in Canada, and at prices quite different from those established for corrugating medium by the other mills. ABITIBI's price was always lower than either kraft or straw and changed more frequently, sometimes downward, which the other mills' grades never did. ABITIBI was never represented at the Board Section during the period to February 1954. There are suggestions in the evidence that ABITIBI's grade of board was not considered competitive in quality by the Canadian mills in relation to their own product. Until July 31, 1950, the delivered price in Canada of ABITIBI's product was sharply below its U. S. price, e.g. in 1949 there was a price differential of 27 cents per thousand square feet. On August 1, 1950, however, the Canadian price of ABITIBI's board was increased by 41 cents per thousand square feet, from \$1.10 to \$1.51, when the U. S. price was only \$1.43 (ABITIBI's Return of Information). Although the evidence does not disclose any liaison between ABITIBI and the other mills, it is a fact that this price increase took place immediately before BATHURST began marketing in Canada its new semi-chemical corrugating medium, at the same price as kraft which at that time was \$1.57 per thousand square feet. Both the \$1.51 price of ABITIBI and the \$1.57 of the other mills were delivered prices."

(Statement of Evidence, Vol.IV, p.812)

Bathurst, prior to announcing to its customers its intention to make BCM and discontinue kraft corrugating medium, had advisedrompton of its plans. This appears in a slip of paper (Serial 15088 BAM) attached to a draft of the announcement dated December 13, 1950 (Serial 15089 BAM).

"R.L.W.

Your comments would be appreciated. BUT  
Roger Godden is all against insertion of .009  
Liner any different from .009 Kraft currently being  
supplied.

G.T.C.  
Dec.13th."

(Serial 15088 BAM)



The actual announcement was made in a letter dated December 14, 1950 (Serial 24317 CPO).

Shortly afterwards Bathurst decided to offer a 26-pound liner at a price of \$1.71 per 1,000 square feet (cf. former price of \$1.57 for kraft .009 liner or corrugating medium). This appears from a handwritten memorandum from G.T. Cockerill to Mr. R. L. Weldon on January 17, 1951, which shows that Mr. Godden had again been informed of the impending changes:

"R.L.W.

I have advised Roger Godden of our decision with regard to .009 Liner 26# and price \$1.71 per M Sq. Ft.

He still does not like it but recognizes that our business is our business. He appreciated having been informed before the goods had actually been supplied.

He feels that \$5.00 a ton will be no deterrent to his customers in asking them to supply same grade."

(Serial 15094 BAM)

St. Lawrence did not go into the manufacture of sem-chemical corrugating medium, but continued to sell the kraft grade. Its reason for so doing was that the kraft grade doubled as a liner and St. Lawrence did not wish to suffer any loss of sales which might arise from the substitution of a single-purpose for a dual-purpose product. Mr. Godden was concerned over the maintenance of such a quality in this .009 board that its use should not be restricted to that of corrugating medium only. The possibility arose from the Red Rock mill's practice of adding ground wood to the raw materials in order to reduce costs. This is shown in a letter written by Mr. R. C. Godden to Mr. R. G. Johnstone on April 17, 1950, which was in part as follows:

"I have your memo of April 12th in reply to mine about Martin Paper Products and am certainly surprised that you could possibly have the impression that our sheet of .009 was made for Corrugating only, as I stressed the point of its dual use at great length in our original discussion in the mill office at Red Rock and again at every discussion we have had on this subject. . . .

. . .

I pointed out on many occasions that a very large percentage of all corrugated cartons made at the present time are what are known



as 40# cases and/or non-test boxes which have one or more liners of .009. The reason that our .009 Kraft has been so popular in the past is its ability to do both jobs satisfactorily.

I do not want you to have the impression that I think we should not be putting any Groundwood in this medium, as I am fully aware of the advantages gained by our Company by running the Groundwood Mill at Red Rock and the resultant reductions in manufacturing costs which can be attributed to the addition of some Groundwood. I only want to be sure that we do not go too far with this Groundwood and put our .009 in the category of Corrugating Medium only.

I think that this is a good time to draw your attention again to the fact that such mills as KVP, Marathon, Gair, Strathcona and Hinde & Dauch manufacture .009 sheets that can be used as corrugating medium only and that there is a surplus of this material on the market, even under today's boom conditions in the corrugated box industry and as soon as our sheet is put in this category we immediately have all of the above firms as competitors, whereas at the moment we are selling Hinde & Dauch and Gair .009 and our only competitor in the east is Bathurst. This situation may change shortly as Dryden are now making shipping case materials, however it is too early to say just how serious a factor they will become in this Industry."

(Serial A26173 LCO)

Early in 1952 Bathurst began to manufacture 37½-pound liner. This is indicated in a letter from Mr. G. T. Cockerill to Bathurst's mill on February 18, 1952:

"I believe that the President has to some extent covered this matter with you on the telephone, but he has asked me to send you a memo. as well.

The mill will, no doubt, be receiving increased orders for 37½# liners mainly for use in 175# Test shipping cases, which hitherto have been made from an outside liner 47# and inner liner 26#.

Will you please see, when runs of 37½# liner are made, that the following are borne in mind:-

1. Basis weight is watched very carefully and, for the next few weeks at least, to be sure that average basis weight is above rather than below 37½#. However, 37½# is what is required. Cull points should be carefully considered.

2. Well calipered down for a first-class finish.
3. Mullen 90 - 95.

We shall be selling this material at \$2.66 per M Sq. Ft. which will produce at 37 $\frac{1}{2}$ # \$141.86 per ton as against the \$141.70 per ton, which at 47# we receive from the current .016 price of \$3.33 per M Sq. Ft."

(Serial A25650 2BAM)

The reason for Bathurst's decision was its officials' belief that there was an impending demand for 175-pound boxes, that the brewer in particular would want them, and that competition would force them to supply 37 $\frac{1}{2}$ -pound liner for their manufacture. This appears from a handwritten memorandum of Mr. Cockerill:

"37 $\frac{1}{2}$ # Liners & 175# test Boxes for Breweries

H.S.L. [Littel]john of KRAFT CONTAINERS] said Feb.15th that F.C.H. had checked with

Wirebound - CPB - Gair

They have not got orders for 175# Test boxes but will fill them if they do get such orders.

We have not yet talked with Hygrade

[Marginal note]	K.C. & S.C. will not act on this till we advise them.
Limited amount. Amt. for beer ac- counts.	When talking with Hygrade - if we do - we should say w have been experimenting with a 37 $\frac{1}{2}$ # sheet -  Competition is apparently putting us into necessity of supplying it for 175# test boxes for Brewers. Matter was briefly mentioned by RLW [Weldon] to RGI [Ivey of HYGRADE].
[Illegible note]	Our price will be \$2.66 per M. Sq. Ft. = \$141.86 per ton 47# @ 3.33 is \$141.70 per ton
	? Advice to Wilson Boxes ----- Brompton ----- Gair ----- H & D [Illegible note] : ----- Dryden - If Lorne Goodall is in East - see G. Eley or Bob McL to do it.

J.G.C. [J.G. Chalmers, Manager of Operations, Bathurst] at mill to be told that 37½# will be ordered-Watch basis weight very carefully & to begin with be sure that average is above rather than below 37½#. Cull Points to be carefully considered. Well calipered down for 1st class finish - Mullen 90-95.

Frank Jeckell on telephone Feb.18th said this 175# box was not a particularly hot matter at moment though he felt sure that when Eddy Taylor gets fully settled they will be after it - also the other brewers - apparently still with a committee.

Gaylord type of box is certainly hot at the moment.

This was an 'off the record' conversation as a result of my call to Jeckell.

G.T.C.  
Feb.18th."

(Serials A25653-54 2BAM)

That St. Lawrence was kept informed of Bathurst's intentions as shown by the following memorandum of February 21, 1952 to "H.S.S.", written by Mr. Cockerill, and the latter's later endorsement of it.

"H.S.S. [H.S. Smith, Sales Manager, Bathurst]

I have been trying to get Roger Godden but he has been away.

Please tell him that in order that our boxplants can make 175# test boxes, (usually .016 - BCM - .009) and in order to reduce the call on us for 26# liner we are going to supply 37½# liner -

Price is \$2.66 per M Sq.Ft.	=	\$141.86
Price of .016 47# is \$3.33	=	\$141.70

G.T.C.  
Feb.21"

(Serial 14925 BAM)

On February 22 he endorsed this memorandum:

"I have told Roger all this so no need for you to do so.

G.T.C.  
Feb.22"

(Serial 14925 BAM)

Mr. Cockerill's memorandum of March 21, 1952 suggests that demand was, in fact, swinging from the 200-pound box to the 175-pound box and that Bathurst would be forced to supply the latter:

"Kraft C. - 175# test boxes

In reply to telephone call from Eric Rodgers 4 P.M. Mch. 21 I told him not to go out changing canners from 200# to 175#. If any canners because of Hygrade talk said they wanted 175# boxes - tell them we still think the 200# box the correct & suitable box for their purposes. If however they want 175# let them have them of 2 37½# liners but it would be their own responsibility as to whether they proved suitable. Eric agreed this was the correct view to take.

After this talk I advised W. Saddler of the conversation & said it applied to S. C. policies as well - With all of this he agreed

(Serial A25652 2BAM)

(e) Summary

Prior to 1954 Canadian manufacturers made containerboard in a restricted number of calipers. The cartons manufactured from these grades of containerboard were below the standards set by the Canadian Freight Association in Informal Ruling A-1 for the minimum combined calipers of the liners in five out of nine instances, the same in three, and slightly above in one. Furthermore, neither the 90-pound nor 120-pound containers met the Mullen test. Actual manufacturing specifications of nine types of Canadian container in respect of the combined weight of the liners were below the standards set by Rule 41 of the U. S. Consolidated Freight Classification in five out of nine instances and much above in four.

The adoption of the American specifications (in force in the U. S. A. since 1944) would have necessitated the manufacture in Canada of five rather than just three calipers of containerboard and would have saved the container manufacturer money on four constructions of box (because a smaller weight of liner would have been required per 1,000 sq.ft. of combined board) both for raw material and freight. It would also have permitted the container manufacturer to make containers conforming more closely to the specific needs of their customers, enabling the latter to secure an optimum balance of quality and cost. The adoption of the American standards would, however, have brought severe competitive pressure to bear upon the manufacturers of jute board, which is much heavier per 1,000 square feet of any specified caliper than kraft board. For this reason the jute manufacturers were opposed to the proposed change; some of the kraft manufacturers came in time to favour it.



When finally adopted in Canada in 1954, the American specifications resulted in the manufacture in Canada of six calipers of board (cf. the prior 3).

The fact that prior to 1954, the Canadian 65-pound box was much above minimum strength, while several of the remainder were below, was a factor in the predominant importance of the 65-pound box before the change in the Canadian Freight Classification. As a result of the manufacture of 42-pound kraft linerboard begun in 1953 in anticipation of a change in the Canadian Freight Classification, the users of 65-pound boxes were able to realize substantial savings on their material costs. Increased competitive pressure was put on the manufacturers of jute board. As a result both of the changes in the boards manufactured in the period 1952-53 and also of the change in the Canadian Freight Classification, the users of shipping containers had available to them a far greater range of boxes of a standard acceptable to the Canadian railways than in the earlier part of this period. The importance of the 40-pound and 20-pound boxes increased, although it is not clear whether this occurred at the expense of the 65-pound box exclusively.

During the period 1950-55 changes occurred in the types of board manufactured in Canada. Although the change in the Canadian Freight Classification's specifications would have forced these changes, it is notable that some of them had occurred a considerable length of time before the coming into effect of the revised specifications on March 1, 1955. It was clear to the board and shipping container manufacturers that the Canadian Freight Classification Committee had made up its mind by March 1, 1954 to submit its proposed revision to the Board of Transport Commissioners and that the new specifications were expected to become operative about a month later. The introduction of semi-chemical corrugating medium and the 37½-pound kraft liner by Bathurst, the former in December, 1950, the latter in 1952, clearly occurred long before the outcome of the Canadian Freight Classification Committee's deliberations was determined. The production of 37½-pound kraft liner was the result of customers' pressure for a satisfactory 40-pound box and of competition. Bathurst's introduction of a new 26-pound kraft liner in 1951 also clearly preceded the change in the Canadian Freight Classification's specifications by some years. The production of a 42-pound liner, which as events subsequently showed, was to replace the 47-pound liner almost entirely, was begun by Bathurst in September, 1953. Hence some of the significant changes in the types of board produced had occurred long before the change in official specifications. Bathurst appears to have played a leading role in introducing new boards, having realized that its interests differed from those of the jute producers. The evidence shows that Pacific Mills was actively planning the introduction of new boards early in the 1950's. In the case of both mills the fear of actual or potential American competition was an important motivating force.



### 3. Exchange of Samples of Containerboard

Another feature of the practices of the containerboard manufacturers, the exchange of samples of containerboard, is significant to the standardization of containerboard and shipping containers. That such exchange of samples occurred is shown in the following evidence. Toward the end of wartime control, on March 8, 1947, R. C. Godden (Brompton) wrote to G. T. Cockerill (Bathurst) as follows:

"We are attaching hereto a couple of samples of our Red Rock .016 Liner which we thought you might be interested in seeing and were wondering if you would have any objections to giving us a couple of samples of Bathurst .016 Kraft Liner in return.

We would appreciate hearing from you at your convenience.

(Serial A26010 LCO)

The reply was:

"Many thanks for your letter of March 8th and samples of y Red Rock .016 Liner. I had hoped to be talking with you this week after my return but I found that you were out of town.

I am going to Toronto Tuesday night, March 18th, and would like to get together with you either Monday or Tuesday. Would y please give me a ring.

Attached are two samples of our own .016 Kraft Liner."

(Serial A26011 LCO)

Mr. Cockerill, when examined on the contents of these two letters, indicated that there had generally been an interchange of samp with anybody who wanted them, and not just specifically with Mr. Godd of Brompton. He indicated that Hinde & Dauch and Gair sent samples to Bathurst of their jute liner for Bathurst to examine and that Bathurs then decided whether it was going to buy it from them for use at Kraft Containers. He maintained that the purpose of the interchange of samp with St. Lawrence (formerly Brompton), which was the only other kraf manufacturer, arose out of interest in the progress being made at Red Rock. He denied that the exchange of samples occurred because of any agreement about specifications of board (Evidence, pp.5852-58).

Nevertheless, it is clear that such exchange of samples wo

permit firms to ascertain whether their competitors were exceeding the specifications laid down in the Trade Customs. There is, however, no evidence before the Commission that this was in fact done.

## CHAPTER IX

### PROFITABILITY OF THE SHIPPING CONTAINER INDUSTRY

The Director obtained from many of the shipping container companies with which this inquiry is concerned, returns of information giving data as to the profitability of their operations during the years 1948-54.

We look first at the figures of five companies showing their net profit percentage in relation to sales.

The firms chosen for this purpose - Superior, Hendershot, Martin-Hewitt, Corrugated Paper Box, and Hygrade were selected for the reasons that they were all located in Ontario and during the period 1948 to 1954 were neither integrated board and box firms, nor, with the exception of Corrugated Paper Box and of Martin-Hewitt, both of which were acquired by Hinde & Dauch in 1954, were they subsidiaries of board firms. Thus with the possible exception of Corrugated Paper Box and Martin-Hewitt for the year 1954 the profitability of these firms is not derived in any degree from the sale of board, nor were their rates of profitability affected by arbitrary allocations of profit between board and shipping container operations as they conceivably could have been in an integrated board and container company. Although Superior made folding and set-up boxes, such products accounted for only about 20 per cent of its total sales. Corrugated Paper Box made some corrugated lamp wrappers, corrugated cushions, corrugated single-face rolls of glassine and grease proof material and some other products. With the exception of these products the production of the firms listed appears to have been entirely corrugated paper board shipping containers, corrugated sheets and rolls.

In the Ontario-Quebec "costing" zone the mark-up was ostensibly always five per cent. Although surcharges of five or 15 per cent on costs were in effect in certain periods, these surcharges were supposed to be allowances for increased costs. The mark-up was however, always five per cent on "costs" (See Appendix IV of this report).

The following table shows the percentage relationship between profits before income tax and net sales for each of the five companies named above for each of the years 1948-54 inclusive.

Relationship of Profit Before Income Tax  
to Net Sales, 1948-1954  
(per cent)

	<u>Superior</u>	<u>Hendershot</u>	<u>Martin- Hewitt</u>	<u>Corrugated Paper Box</u>	<u>Hygrade</u>
1948	8.24	3.71	2.14	5.66	11.91
1949	4.06	2.18	3.94	4.93	13.59
1950	6.18	5.63	5.93	5.16	15.30
1951	8.54	11.96	10.07	7.61	12.00
1952	8.90	9.43	10.39	6.88	12.59
1953	7.65	8.86	7.63	9.75	12.92
1954	9.82 (1)	10.73	5.57 (2)	10.63	15.38

(1)

Profits for nine months ending September 30, 1954.

(2)

Profits for ten months ending October 31, 1954.

Source: Returns of Information

It is noteworthy that after 1949 profits before income tax were always more than five per cent of net sales for all the companies listed, and often substantially more. Even Hendershot, which gave additional discounts ranging generally from three per cent to five per cent, (and on one or two contracts substantially more) below the prices established by the Containers Statistics Manual, on from more than half to two-thirds of its total sales, never had profits less than 5.63 per cent of net sales in any of the years 1950 to 1954 inclusive: indeed after 1950 they varied between 8.86 and 11.96 per cent. Hygrade's profits in relation to sales were consistently more than double, and in 1954, more than triple the five per cent ostensibly used as the mark-up figure by the companies associated with F. C. Hayes or Container Statistics.

Next we look at the relationship of profits before income tax to capital plus earned surplus for the same five companies, which is shown in the following table:

Relationship of Profit before Income Tax to  
Capital Plus Earned Surplus, 1948-1954  
(per cent)

	<u>Superior</u>	<u>Hendershot</u>	<u>Martin - Hewitt</u>	<u>Corrugated Paper Box</u>	<u>H</u>
1948	26.81	11.04	5.32	8.36	28
1949	12.78	9.14	9.82	8.38	97
1950	22.75	28.68	16.78	7.57	44
1951	28.09	64.26	31.75	8.73	61
1952	38.70	40.78	22.44	7.97	48
1953	33.25	50.87	15.60	13.55	48
1954	30.45 (1)	46.65	11.08 (2)	14.45	50

(1)

Profits for nine months ending September 30, 1954

(2)

Profits for ten months ending October 31, 1954.

Source: Returns of Information

The table shows that of the five firms, Hendershot, despite the large percentage of its business done at discounts from the established prices, had the second highest average profits in relation to capital plus earned surplus, and in two years, 1951 and 1953, had the highest profits of these five companies on this basis.

Finally, we look at the comparison of the profitability of the shipping container industry with that of other industries. For this purpose ten shipping container firms have been chosen:

HENDERSHOT	MARTIN PAPER
HILTON	MARTIN-HEWITT
HYGRADE	SHIPPING CONTAINERS
MARITIME	SUPERIOR
KRAFT CONTAINERS	WILSON

All of these companies bought their supplies of raw materials at the market price even though some of them were subsidiaries of board firms. From the list given above Maritime was omitted from the calculations in 1948 and Superior and Martin-Hewitt in 1954 because their financial periods did not end on December 31. The percentage relationship of profits before income



tax to capital plus surplus for these companies as a group was as follows:

<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>
34.5	34.4	42.3	55.4	48.1	39.6	44.9

Source: Returns of Information

The information in the following table is drawn from the Department of National Revenue, Taxation Statistics, and is set out for purposes of comparison:

Industry	Profit Before Taxes as Per Cent of Capital and Surplus					
	1948	1949	1950	1951	1952	1953
Meat Packing	23.0	12.7	17.1	15.6	15.2	
Slaughtering & Meat Packing						21.3
Bakery Products	16.4	24.4	15.5	13.8	16.3	13.7
Sugar Refining	12.0	10.4	12.2	12.7	9.4	N.A.
Alcoholic Beverages	32.0	32.8	33.1	33.9	40.7	40.2
Tobacco	13.2	12.6	15.0	17.4	24.1	
Tobacco & Tobacco Products						21.8
Cotton Textile Mills	19.2	19.3	17.3	22.5	7.4	
Cotton Goods						11.5
Sawmills	35.6	19.2	32.1	32.7	18.1	17.6
Furniture	26.7	23.4	22.2	18.6	19.1	18.7
Pulp & Paper Mills	25.5	21.0	27.4	34.2	21.7	19.7
Converted Paper Products	24.2	20.6	25.0	28.3	22.0	
Paper Boxes & Bags )						22.9
Misc. Paper Products )						
Book Publishing & Printing	21.0	18.7	21.4	17.7	20.0	
Publishing & Printing						33.8
Paints & Varnishes	17.2	13.3	15.1	18.0	13.8	17.6
Drugs & Toilet Prepara- tions	22.1	24.2	27.2	28.3	20.7	
Pharmaceutical Prepara- tions )						20.9
Soaps & Toilet Preparations)						
Industrial Chemicals	23.9	22.6	28.1	35.3	31.3	
Fertilizers & Industrial Chemicals						23.9
Petroleum Refining	10.1	6.7	14.0	14.4	16.0	
Petroleum Refining & Products						15.7
Leather & Leather Products	17.1	14.5	12.6	14.4	15.5	
Boots & Shoes )						13.9
Other Leather Products)						
Glass & Glass Products	26.1	23.2	25.3	24.9	21.1	27.6
Cement, Gypsum & Plastic Products	23.3	25.8	27.6	28.8	24.1	
Abrasives, Asbestos, Cement & Clay Products						30.8
Primary Iron & Steel Products	18.8	20.0	22.0	25.3	19.3	
Primary Iron & Steel						17.7
Electrical Machinery & Appliances	25.6	21.5	28.1	28.4	26.0	
Heavy Electrical Machinery & Equipment						24.0
Household Electrical Appliances						28.9
Automobiles, Parts & Equipment	30.9	41.4	52.2	47.6	50.0	
Motor Vehicles						33.6
Motor Vehicle Parts & Accessories						35.9
All Manufacturing Companies	23.6	21.1	24.8	26.3	22.9	21.5

It will be noted that the shipping container industry had the highest rates of profit in relation to capital plus surplus of any of the groups listed in 1951, 1953 and 1954. It was out-ranked in this respect in 1949, 1950 and 1952 by Automobiles, Parts and Equipment only, and in 1948 by Sawmills only. It is true that the profits of these ten companies, selected by the Director, may have been higher than those of the whole industry. It was thought, however, that the figures for these companies, the great majority of whose business was the production of shipping containers, would provide a truer profit picture of the container industry as such, than would be obtained by including companies for which the profit picture was complicated by parent-subsidiary relationships or by the fact that a substantial part of their production was other than shipping containers.

## CHAPTER X

### SURVEY OF INDUSTRY PRACTICES IN 1959

#### 1. Introduction

The Director initiated in May 1959 a survey of the shipping container industry to discover what the situation then was with respect to practices similar in nature to those described in earlier chapters of this report. By notices for returns of information the Director required statements and supporting documentary evidence on the use of cost component manuals; mark-ups used in connection therewith; special lists of price components or selling prices relating to canners' and brewers' cartons and corrugated single-faced rolls, and any discounts or other special terms of sale in connection therewith; information received from Container Statistics or F. C. Hayes; important changes in ownership and control of the recipient companies; and any negotiations or transactions by the recipient companies on behalf of themselves or of any parents or subsidiaries aimed at acquisition or disposal of capital stock or assets of firms in the containerboard or shipping container industries. For most categories of information the relevant period was to be from March 1, 1959 to May 15, 1959. These notices were sent to thirteen companies manufacturing shipping containers either directly or indirectly through subsidi-

A return of information was also required of F. C. Hayes regarding any contracts between himself or Container Statistics and firms in the shipping container and containerboard industries, payments of money passing between F. C. Hayes or Container Statistics and such companies, copies of any contracts, and copies of all statistical compilations of Container Statistics or F. C. Hayes. The data on payments covered the period since January 1, 1958, and on the other matters from January 1, 1954.

Subsequently a return of information was required of Field, Darch and Company, Chartered Accountants, of Toronto with regard to services performed by that company for a list of 23 companies in the containerboard and shipping container industries and for F. C. Hayes and Container Statistics.

2. Results of Survey, Central Canada and Maritimes

(a) Firms' Relations with Container Statistics Limited or  
F. C. Hayes

With respect to contracts of the kind described in an early chapter of this report, the Statement of Evidence says:

"292. The formal tripartite contracts among the individual shipping container manufacturers, CONTAINER STATISTICS and F. C. Hayes, which were described in Volume I, paragraphs 147 et seq., remained in effect in June 1959 only in respect of WILSON, STANDARD, HENDERSHOT, GAIR (now CONTINENTAL CAN), and SUPERIOR.

293. When HINDE & DAUCH acquired MARTIN-HEWITT and CORRUGATED PAPER BOX in 1954-55 their contracts terminated and that of HINDE & DAUCH itself terminated on December 31, 1956. This was the subject of the following oral evidence by F. C. Hayes on January 7, 1957:

'Q. Is this agreement still in effect at Hinde and Dauch?

A. No sir.

Q. What happened?

A. Well they stopped.

Q. When?

A. December 31st 1956.

Q. 1956?

A. A week ago.

. . .

Q. Did you personally enter into any arrangements with Hinde & Dauch to perform services for them outside of having a contract with you?

A. No.

Q. That is, either as Container Statistics or as Mr. Hayes?



A. You mean when this was signed?

Q. No -- I mean when they terminated on December 31st 1956 -- . . .

. . . '

(Evidence pp.4482-84)

Since that time arrangements have been made under which services to HINDE & DAUCH are rendered by F. C. Hayes, not his company, these being covered by a letter from HINDE & DAUCH's attorney, specifying the services to be rendered on an annual basis. This letter was not submitted and has not been requested. The return of information by Mr. Hayes reports payments on behalf of HINDE & DAUCH for the years 1958 and 1959, no question having been directed to the year 1957.

294. The formal contract with CANADIAN WIREBOUND terminated when that company was acquired by BATHURST in 1955, and the contract with MARITIME terminated on March 31, 1959, shortly after BATHURST acquired minority stock interest in MARITIME. BATHURST continues to use the services of F. C. Hayes as a consultant. "

(Statement of Evidence, Vol.IV, pp.864-65)

The companies in the Central Provinces and the Maritimes which in 1958 and the first half of 1959 paid money to Container Statistics were Acme, Continental Can (Gair), Hendershot, Maritime, Dominion Containers, Sherbrooke, Superior, and Wilson. Bathurst and Hinde & Dauch paid fees to Mr. F. C. Hayes in 1958 and the first half of 1959, while Hygrade made payments to F. C. Hayes in 1958.

The Return of Information of F. C. Hayes gave the following answers to the question whether the character of his service in relation to manuals and price lists had changed since 1954:

" . . .

1. Cost manuals or revisions to the pages thereof:

During the period from January 1, 1954 to January 1, 1957, F. Hayes prepared cost manual tables based on investigations of costs of client. These were subsequently photostated and printed and supplied to client and again subsequently supplied by F. C. Hayes or by Company to such manufacturers as requested same. This includes material costs computed from

current paperboard costs resulting from changes in actual costs on new grades of material.

Since January 1, 1957 F. C. Hayes has maintained a more or less constant contact with one client and has prepared for them exclusively revised conversion and material tables. Several editions of these have been computed at such intervals as changes in costs made such action necessary.

During 1957 prepared tables of costs of oversize boxes based on a combination of existing tables into one table for staff time savings and revised costs secured from various time studies. Printed and supplied by F. C. Hayes or Container Statistics Limited to manufacturers requesting same.

During 1958 F. C. Hayes prepared report of costs covering the machine assembly of partitions based on costs submitted by client and converted such costs to a ready reckoner table. Supplied to client and subsequently supplied by F. C. Hayes or Container Statistics Limited to manufacturer requesting same.

During 1959 Container Statistics Limited typed, at the request of one manufacturer a revised machine charge table which had been prepared by them. This table was typed to the best of my knowledge on or about May 15, 1959 and copies supplied to manufacturer within a day or two. Subsequently reprinted and available to manufacturers from F. C. Hayes or Container Statistics Limited, on request.

#### MATERIAL COSTS

- 1955 - 3" kraft paper tape costs.
- 1956 - Prepared material cost sheets on single-wall corrugated with facings of 26 lb. -  $37\frac{1}{2}$  lb.
- 1957 - Prepared material cost sheets on single-wall corrugated with facings of 26 lb. - 33 lb.
- 1957 - Prepared material cost sheets on single-wall corrugated with facings of 33 lb. - 33 lb.
- 1958 - Prepared material cost sheets on single-wall corrugated with facings of 17 lb. - 17 lb.

2. The preparation of lists of manual costs or selling prices for corrugated single-faced rolls, canners' cartons, and beer cartons?

- 1956 - F. C. Hayes prepared single-faced roll price list copied from price list previously issued by Bathurst Containers Limited.

Since January 1, 1957 any price list available from Container Statistics Ltd., or F. C. Hayes has been copied from lists previously published by a manufacturer and already circulated to suppliers. We supply copies only on request.

- 1957 - Beer list copied from Bathurst price list June 3, 1957 and detailed as former Bathurst lists.
- 1958 - Single-faced roll list for Standard Paper Box Co. made with kraft wrapping paper.
- 1958 - Cannery list - May, copies from Bathurst list, September 1, 1956 or from list (Name on list deleted) dated March 1, 1958.
- 1959 - Beer handhole costs copied from Gair Paper Products List, Jan. 1959.
- 1959 - Beer handhole costs copied from Hygrade Containers Limited list, March, 1959.

. . ."

(b) Manuals

The evidence indicates that "costing" manuals were still used by the Eastern companies in 1959 and that, with the exception of those of Pembroke Shook Mills and Hinde & Dauch, they were virtually identical. Bathurst used a "Pricing Manual - Corrugated" in addition to the Container Statistics "costing manual", but the latter remained the basic instrument for determining prices that are the same as those charged by the other firms of this industry.

Pembroke Shook Mills' manual was described in Chapter VI of this report.

With respect to the Hinde & Dauch manual in use in 1959 the Statement of Evidence says:

"301. . . . The current return of information shows that HINDE & DAUCH continues to use a modified manual, and this manual has differences from that of CONTAINER STATISTICS which are more marked than in 1953. In every instance but one the material cost combinations in the HINDE & DAUCH manual are identical with CONTAINER STATISTICS, the exception being for the 42 lb. - 26 lb. - 42 lb. combination where the HINDE & DAUCH figure is \$18.08 instead of \$18.07. A big difference between the two manuals is found in the tables for conversion charges, where HINDE & DAUCH uses a single table for 20, 40 and 65-pound single-wall standard boxes, against three separate and different tables used by CONTAINER STATISTICS. Th

same sort of difference is found in special boxes, single-wall. In the standard 90-pound and 120-pound single-wall, and in the double-wall boxes HINDE & DAUCH's conversion factors in almost all areas are ten cents per thousand boxes different, and the 90 and 120-pound special single-wall boxes, are sharply different. The special double-wall boxes are exactly the same. The small-quantity charges in HINDE & DAUCH's manual are preceded by a handwritten note:

'Small Order Charges introduced independently - not adopted by anyone else to our knowledge.'

Then follows a sheet showing graduated upcharges for 50 to 1,250 boxes in areas from 250 to 25,000 square feet (SO.5-58-1) which is sharply higher than the corresponding sheet in the CONTAINER STATISTICS manual (12-66-53). However, a copy of the latter sheet (SO.1-53-1) is also in the HINDE & DAUCH manual, apparently representing an alternative basis. For 50 to 1,250 boxes in areas from 26,000 to 27,000 square feet, the HINDE & DAUCH upcharges (SO.5-58-2) are sharply higher than those prescribed by CONTAINER STATISTICS (12-67-53). For 1,500 to 8,000 boxes, in areas from 250 to 25,000 square feet the HINDE & DAUCH upcharges (SO.1-53-3) is a copy of the CONTAINER STATISTICS sheet (12-68-53). HINDE & DAUCH's version of the oversize boxes sheets are exactly the same as, or only slightly different from, those of CONTAINER STATISTICS in many sizes, but where they depart they completely break the pattern and are sharply different. The difference occurs at 76 inches and it is noted that in one of the three tables HINDE & DAUCH give no figures at all for over 76 inches. There are several other significant differences in the tables of the two manuals, but also many other tables are identical copies of each other except for headings and so forth.

302. All the companies in Central Canada, other than HINDE & DAUCH, and Pembroke Shook Mills Limited report that their regular mark-up over manual costs is ten per cent. HINDE & DAUCH report that they use ten per cent for all except 65-pound boxes, which take  $7\frac{1}{2}$  per cent and die-cut products which take five per cent. Pembroke Shook Mills report their mark-up as ten to fourteen per cent."

(Statement of Evidence, Vol.IV, pp.868-69)

The Director calculated the selling prices of four regular specifications of 125-pound boxes, four regular 175-pound boxes, three regular 200-pound boxes and one special 200-pound box, using in the first instance the "cost" components of the Hinde & Dauch manual and in the other case the Container Statistics manual. Mark-ups



of 10 per cent were used for all boxes except Hinde & Dauch's 200-pound boxes, with which a mark-up of  $7\frac{1}{2}$  per cent was used. The resultant Hinde & Dauch prices compared with the Container Statistics prices as follows (per thousand boxes):

2 -	the same as	Container Statistics Limited			
1 -	50 cents above	"	"	"	"
1 -	45	"	"	"	"
1 -	40	"	"	"	"
4 -	5	"	"	"	"
1 -	5	" below	"	"	"
2 -	20	"	"	"	"

The greatest difference, 50 cents, in a total price of \$237.90 per 1,000 boxes is about one-fifth of one per cent.

(c) Change in Machine Charges, May 1959

In May 1959 increased machine charges were instituted by most of the companies queried. The Statement of Evidence says:

"304.

The increased machine charges of May 1959 were notified to custom by HINDE & DAUCH in a letter of April 8, the changes not to become effective until May 1. On other dates in April, BATHURST, SHERB and HYGRADE gave notification of the same increases effective on May 1. They also were made effective on May 1 by CONTINENTAL and on May 4 by DOMINION CONTAINERS and CHAMPLAIN. Pemb Shook Mills Limited made them effective on May 15, by letter of May 1 and while ACME adopted them, it is not known when. SUPER reported no change in price since April 1, 1959, and HENDERSHOT reported specifically that the increased machine charges had not as of June 15, 1959, been put into effect. These revised machine charges were circulated by F. C. Hayes but they bore the date of May 15, 1959."

(Statement of Evidence, Vol.IV, p.871)

(d) Special Price Lists

The substance of Mr. Hayes's return of information on this subject is that in recent years any special price lists which he had made available have been lists already issued and circulated by particular manufacturers. The Director examined and compared the special lists submitted by the companies.



(i) Single-Faced Rolls

Bathurst's list, covering four grades, was dated May, 1956. Lists for single-faced rolls were issued by a number of companies, not all of them covering all four grades, but having, on those grades named, prices identical with those on the Bathurst list. Such lists were issued by Acme, Continental Can (Gair), Dominion Containers and Hygrade. Hinde & Dauch's list gave prices in some instances identical and in other cases differing from the Bathurst list by as much as 10 cents (plus or minus). Hendershot's list of October 1, 1958 covered one grade, prices being substantially below Bathurst's prices and, in addition, subject to various concessions. Sherbrooke claimed it did not solicit this business. Pembroke Shook Mills and Superior said they had no special list.

(ii) Canners' Lists

On this subject the Statement of Evidence says:

"307. Canners' Lists

BATHURST's list is dated May 1, 1959, superseding its former list dated May 1958, apparently in order to incorporate the new machine charges which became effective on May 1, 1959. Except for these increased machine charges, the list submitted by ACME, dated May 1958, contains specifications and prices identical with those of BATHURST. ACME, in its return of information, stated that the canners' list was never used to quote prices. CONTINENTAL CAN (GAIR) submitted a list identical with that of ACME. DOMINION CONTAINERS submitted a list dated May 25, 1956, applicable to only three of the many sizes of canning boxes listed in the other lists. This list set out prices for several small lots of containers, the price being reduced as quantities increased. For the largest quantity listed, the prices were generally from 1 to 4 cents per thousand boxes higher than the BATHURST list, except that in the case of the box identified as 105/6, when printed in two colours, DOMINION CONTAINERS' price was 14 cents below the BATHURST list. HYGRADE, whose canning business is large, in a list dated March 1958 specified 8 sizes of 40-pound test boxes and 4 sizes of 65-pound test boxes, against many more listed by BATHURST. In each case the prices were identical with BATHURST. HINDE & DAUCH's list, dated June 1956, on some items listed significant price differences, and on other items the differences are nominal. . . . "

(Statement of Evidence, Vol.IV, p.872)

The Statement of Evidence then presents the prices listed by Bathurst and by Hinde & Dauch for 16 specifications of plain and

16 specifications of printed canners' cartons. Bathurst's listed prices ranged from \$73.20 to \$151.85. Hinde & Dauch's prices compare with Bathurst's prices as follows:

<u>No. of Specifications</u>	<u>Hinde &amp; Dauch's Price Was;</u>
1	\$1.65 higher
1	1.60 "
1	1.45 "
2	1.35 "
1	1.30 "
1	1.25 "
1	1.20 "
3	0.60 "
3	0.50 "
1	0.40 "
1	0.35 "
2	0.25 "
3	0.15 "
3	0.10 "
4	0.05 "
2	Same
2	0.05 lower

Hence of the total of 32 Hinde & Dauch prices, 11 were the same or not more than 10 cents different (higher or lower) than Bathurst's, 13 were 15 to 60 cents higher, and 8 prices differed by amounts ranging from \$1.20 to \$1.65.

Hendershot, Sherbrooke, Superior and Pembroke Shook Mills had no canners' lists in effect.

(iii) Beer Lists

On this subject the Statement of Evidence says:

"308. Beer Lists

The BATHURST list submitted is dated January 1957 and is taken as the basis for comparison. That submitted by ACME is identical with BATHURST as to specifications and prices but contains the detail of manual components for printed boxes. BATHURST has this amount of detail only for plain boxes. Both are complete in detail of final prices and are identical. The ACME list (its return of information says that the company has never sold any brewery cartons) is prefaced by the following note:

' PRICE LIST  
ON  
STANDARD BEER CARTONS  
AND PARTITIONS  
FOR USE BY ESTIMATORS AND SALESMEN  
IN PREPARING QUOTATIONS FOR  
THE BREWING INDUSTRY.

FOR STAFF USE ONLY.

BATHURST POWER AND PAPER CO. LTD.  
CONTAINER DIVISION.

JANUARY -1957'

The beer list submitted by BATHURST does not include this language itself, but another copy of its list, submitted on behalf of CONTINENTAL CAN (GAIR) repeats it all, except that the BATHURST name does not appear. The following companies have not issued beer lists: HYGRADE, DOMINION CONTAINERS, HENDERSHOT, SHERBROOKE, SUPERIOR and Pembroke Shook Mills Limited. HINDE & DAUCH's beer list, dated June 1, 1956, differs substantially from that of BATHURST. It is prefaced by the following instructions:

'This price list has been prepared for the convenience of the office staff and salesmen at all Divisions (Ontario and Quebec) in submitting quotations on beer boxes. The sizes listed have been selected as standard and may vary slightly depending upon the preferences of the individual users. In the case of die-cut boxes, the reverse scoring has been used to define the particular box specifications. If prices for the exact specifications you require have not been listed, or in case of doubt, please refer to Head Office.

All quotations should be submitted on our standard quotation form.'

In showing the prices for the different types of boxes, in different board combination and subject to the addition of partitions and carrying handles, the HINDE & DAUCH list does not go into the same detail as does the BATHURST list. The material combinations for which the prices are listed also differ. The layman is therefore left in doubt as to whether or not many of the specifications in the two lists are comparable. In some instances they clearly are, as appears from the following examples, in which differences between the final prices are purely nominal.

. . . "

The Statement of Evidence then presents comparisons of the specifications and prices of five groups of boxes (or partitions), a group described and priced by Bathurst being compared with what is apparently the same or a closely similar group described and priced by Hinde & Dauch. The results of this comparison may be summarized as follows:

<u>Bathurst's Price Range</u>	<u>No. of Instances</u>	<u>Hinde &amp; Dauch's Price was</u>
Group 1 - \$55.80-\$63.35	4 <u>3</u> 7	10 cents lower 5 " "
Group 2 - \$21.75-\$29.95	4 <u>1</u> 5	10 cents lower 25 " "
Group 3 - \$125.70-\$135.15	5 5 2 1 <u>1</u> 14	The same 5 cents lower 5 cents higher 10 " " 15 " "
Group 4 - \$65.00-\$72.80	2 1 <u>1</u> 4	5 cents lower The same No Price listed
Group 5 - \$140.00-\$149.90	5 2 1 2 3 <u>1</u> 14	The same 5 cents higher 5 " lower 10 " " 15 " " 20 " "
Total	<u>44</u>	

Thus in 26 cases out of 43, Hinde & Dauch's prices were either the same or were within 5 cents (higher or lower) of Bathurst's prices, and in 37 cases out of 43 Hinde & Dauch's prices were the same or within 10 cents (higher or lower) of Bathurst's prices. It is clear that these differences are much less significant than in the case of camers' cartons.



(iv) Pricing of Other Products

Similarity between the firms' prices of certain other products are described as follows in the Statement of Evidence:

"309. DOMINION CONTAINERS included in its manual an undated sheet covering the prices, terms and conditions of sale for 'Fanfold Corrugated Board'. The BATHURST pricing (not costing) manual, using different language, sets forth exactly the same details in sheets marked September 2, 1958, except that the small order table which is included has one more column than DOMINION CONTAINERS which goes to 17,000 lineal feet as compared with 31,000 for BATHURST. HYGRADE in its manual includes a third version, bearing the stamped date October 3, 1957, in which prices, terms and conditions are the same as in the other two, and the small order table is exactly the same as that of BATHURST. This information on Fanfold is the same sort of exception to the general principle of the 'costing manual' as was the price list for single-faced rolls in the earlier period, in that it deals not merely with price components, but with final prices and all conditions of sale. In his return of information Mr. Hayes makes no reference to the preparation of the Fanfold sheets.

310. HENDERSHOT included in its manual a sheet of manual components for board processed through a Tinter-Printer. The sheet was undated. The BATHURST pricing (not costing) manual includes under date of August 31, 1958, exactly the same information, although differently arranged, right down to an example using identical specifications and figures. No other manual included these figures. The BATHURST pricing manual submitted to the Director has the following label attached to it:

'WARNING

THESE DOCUMENTS ARE STRICTLY CONFIDENTIAL AND ARE NOT TO BE DIVULGED TO ANY PERSON OUTSIDE THE COMPANY UNDER ANY CIRCUMSTANCES.'

311. A page-by-page comparison of the manuals submitted by WILSON and MARITIME was made. MARITIME included the sheet for machine assembly of partitions but WILSON did not. WILSON included the sheets for Cutting Dies and MARITIME did not. Introductory pages covering the 1953 index, areas tables and general information sheets were not included by MARITIME, nor were the partition area sheets. WILSON sent some of the latter but they predated the 1953 series. Otherwise the manuals were identical. In other words, all the important pages of manual costs were submitted by



both companies and they were the same. It was also noted that the sequence of page arrangement used by these two companies was the same and differed from that prescribed by Mr. Hayes . . . and followed by the companies in Central Canada. The normal arrangement and that used by each of the two companies in the Maritimes is shown below:

<u>Standard Arrangement</u>	<u>Maritimes Arrangement</u>
Material	Material
Conversion	Printing
Closure	Conversion
Printing	Closure
Small Quantity	Added Costs
Added Costs	Small Quantity
etc.	etc.

312. Each of the two Maritimes companies reported their mark-up over manual as  $12\frac{1}{2}$  per cent for the mainland provinces and 20 per cent for Newfoundland. So did BATHURST.

313. MARITIME submitted a list entitled 'Prices for Single-Faced Paper, each roll is 250 feet long'. No description was given of the material combination involved. This list has no similarity to the BATHURST list. It was not the same as the list submitted by WILSON which was an amended version of the July 1954 list issued by CONTAINER STATISTICS. WILSON's answer to the request for special lists was as follows:

'We had no special lists in use on April 1st, 1959 other than normal listings of Single Face Rolls, copy of our list being enclosed in the submission of lists to you. We had memoranda of beer cartons and canners' cartons lists, copy of which are submitted but which are not used by us.'

These latter lists were not included in the return of information, however. MARITIME had no canners' list and for their beer list they submitted the cover page of what appears to be a standard list issued under date of July 1956."

(Statement of Evidence, Vol.IV, pp.875-76)

#### (e) Statistical Interchange

The Director's survey indicates that the statistical collection and reporting system formerly operated by Container Statistics and described in a previous chapter of this report has been re-instituted outside Container Statistics' operations and that its coverage

has been expanded. Whereas under Container Statistics neither Hygrade nor Bathurst's subsidiaries had participated, and whereas the system broke down in 1954 after Bathurst acquired Canadian Wirebound, the system in existence in 1959 included both Hygrade and the subsidiaries of Bathurst. Square footages but not dollar values were reported by Pembroke Shook Mills. The Western companies and Western branches of Eastern companies did not participate in 1959. This statistical interchange was undertaken by the firm of Field, Darch and Company.

The Statement of Evidence describes the latter's activities as follows:

"316. The notice for return of information sent to Field, Darch and Company was designed to secure full details of the statistical arrangements at present in effect. The return of information received shows that Field, Darch and Company have been concerned in the collection and dissemination of monthly and summary shipment statistics and nothing more. They stated that the work was undertaken early in 1957 and that they did not recall who approached them to do it. They also stated that they were not supplied with any previous data. However, the tables provided show that figures were obtained retroactive to the beginning of 1956. For their work, Field, Darch and Company have received about \$1,800 per annum. The return indicated that the statistical information has been disseminated both to the companies participating and to Mr. Hayes. The return made by Mr. Hayes stated that he has given Field, Darch and Company technical assistance from time to time.

317. The statistical reports are in fact exactly the same in content as those formerly issued by Mr. Hayes, except that they cover only Eastern Canada, including the Maritimes. They show each individual company's shipments each month, in dollars, and in thousands of square feet, and for each district, so that all the companies can see how each other is doing. The first reports were issued by Field, Darch and Company in May 1957 covering operations by months since the beginning of 1957. BATHURST participated from the beginning, as did all other companies in Eastern Canada except HYGRADE and Pembroke Shook Mills Limited. Pembroke Shook Mills began to participate, to the extent of providing their shipments in square feet, in March 1958, figures being supplied retroactive to the first of the year. HYGRADE began to supply their figures, both in dollars and square feet, in May 1958, also providing the back months to the beginning of the year. Since then, all companies have continued their participation."

(Statement of Evidence, Vol.IV, p.877)

### 3. Results of the Survey, Western Canada

The situation in Western Canada is described as follows in the Statement of Evidence:

"319. It will be recalled that MARTIN PAPER terminated its relationship with CONTAINER STATISTICS in June 1954 when the company was acquired by POWELL RIVER. The returns of information obtained from Mr. Hayes and MARTIN PAPER in this final survey show that the company has recently begun again to subscribe for Mr. Hayes's services as a consultant, and has paid \$750 for the first quarter of 1959. CROWN ZELLERBACH has continued to subscribe to the services of CONTAINER STATISTICS, paying at the rate of \$1,500 for the first half of 1959. With the absorption of HILTON into HINDE & DAUCH, and the independent NORWOOD into BATHURST, the companies now doing business in Western Canada, and their locations, are the following:

Winnipeg	-	HINDE & DAUCH, MARTIN PAPER, BATHURST
Regina	-	MARTIN PAPER
Calgary	-	HINDE & DAUCH, MARTIN PAPER
Edmonton	-	MARTIN PAPER
Vancouver	-	CROWN ZELLERBACH, MARTIN PAPER

CROWN ZELLERBACH remains active in the Alberta market.

320. There are no longer any standard manuals in use in Western Canada. CROWN ZELLERBACH uses a manual prepared by CONTAINER STATISTICS for British Columbia and Alberta. MARTIN PAPER uses the Bennington Manual, to which reference has already been made. HINDE & DAUCH uses the same manual as it does in Eastern Canada, and so does BATHURST. There are substantial differences between the manuals used within each territory, and the mark-up structures of the several companies also differ. The net effect appears to be different manual prices for different firms.

321. Commodity price lists are extensively used for pricing containers in British Columbia. This practice apparently was begun by CROWN ZELLERBACH about the end of 1955. Such special lists, containing identical specifications and prices, have been published by CROWN ZELLERBACH and MARTIN PAPER, and were in effect, when the returns of information were made, for containers used by fish canners, by canners of dog and cat food, fruit juices and purees, fruits and vegetables, jams, by canners of motor oil and antifreeze, by the apple packers, bulk can shippers and the breweries. Identical prices have also been issued by

the same two companies for certain beer cartons for the Alberta and Saskatchewan markets. Single-faced roll lists applicable to some or all the different markets have been issued by all manufacturers. If the incidence of the 5 per cent discount on single-faced rolls to paper distributors is correctly understood, effective prices are the same, except for Calgary. For Calgary, HINDE & DAUCH's list, published in June 1958, contains prices some of which are the same and some 5 cents above or below those of CROWN ZELLERBACH and MARTIN PAPER. There is no evidence that the identity of commodity lists resulted from anything but price leadership.

322. Reference has been made earlier to the reduction of British Columbia and Alberta prices early in 1952 to meet competition from U.S. manufacturers (see page 446 *et seq.*), and to the circumstances whereby increased board prices in the fall of 1953 were not applied to those markets. In consequence, container prices in those areas in 1954 were no longer sharply above the Eastern Canadian prices (see pages 485-6). When W. L. Baker, who had been Sales Manager of CANADIAN BOXES for some years, was giving evidence in May, 1956, he explained the introduction of certain price concessions in the following extract:

'A. Well, we had a strike here in the latter part of 1951 which carried through to December with the result that competition from the south, from the American side of the line came into our market here and when our labour troubles were settled we wanted to regain our market. However, there were two or three industries that depend on the American side for their reason for being in operation in British Columbia here and we were in a trading position such that we had to give them some inducement to stay with us. . . .'

(Evidence pp.3412-3)

These inducements were still in effect in 1956 (Evidence pp.3413-5), when the commodity lists were introduced (Evidence pp.3506-8), and as seen above these commodity lists have continued. It appears that the influence of U.S. competition has continued to have a depressing effect upon the B.C. price level for shipping containers. They are now being sold in British Columbia below the Ontario-Quebec prices, reversing the situation in earlier periods as set out in the tables in Appendix II. Examples of such lower prices are readily found by comparing the canners' list issued by BATHURST with that of CROWN ZELLERBACH:



<u>Description of Container (Plain R.S.C.)</u>				<u>Price (Carloads)</u>	
<u>Description</u>					
<u>Can Size</u>	<u>Fluid Oz. Capacity</u>	<u>No. Packed</u>	<u>Test</u>	<u>BATHURST</u>	<u>CROWN ZELLERBACH</u>
211 x 304	8	24	175	69.55	63.5
211 x 304	8	24	200	71.80	66.8
211 x 409	12	24	175	77.14	73.8
211 x 409	12	24	200	79.65	77.6
307 x 409	20	24	175	106.65	96.8
307 x 409	20	24	200	109.20	101.1

In addition, CROWN ZELLERBACH's printing charges to the canners are much lower than those of BATHURST."

(Statement of Evidence, Vol.IV, pp.878-80)

Subsequent to the hearings held by the Commission in Vancouver in December 1960, counsel for Crown Zellerbach wrote to the Commission enclosing copies of correspondence between Crown Zellerbach and Container Statistics and Mr. F. C. Hayes. In a letter dated December 6, 1960 Crown Zellerbach informed Mr. Hayes that after December 31, 1960 it would discontinue the use of the services of Container Statistics Limited, including "Ready Reckoner Manual" but that it might require services in connection with Canadian Freight Classification Canadian Standards Association or such related matters. In a letter of February 9, 1961 to Mr. Hayes, Crown Zellerbach wrote that it would like to have Mr. Hayes services in connection with the Department of Agriculture - Poultry Division and the Canadian Freight Association (Rule 41) for which Crown Zellerbach was willing to pay Mr. Hayes the sum of \$1,500 per annum.



## CHAPTER XI

### THE COMPLAINTS OF OKANAGAN PACKAGING LTD.

#### 1. Introduction

Okanagan Packaging Ltd. is a company formed in 1958 by Dan Beaven and George Holland for the purpose of manufacturing corrugated partitions and selling and distributing other items used in the fruit industry. It began manufacturing in July, 1958 at Kelowna, B.C.

One complaint made by Okanagan Packaging Ltd. to the Director is summarized in a memorandum from that company's solicitors setting out an opinion that the carrying out of certain plans by two British Columbia manufacturers, Martin Paper and Crown Zellerbach, would constitute a violation of Section 412(1)(c) of the Criminal Code, which prohibits ". . . a policy of selling goods at prices unreasonably low, having or designed to have the effect of substantially lessening competition or eliminating a competitor, . . ."

More specific charges are made in certain portions of Okanagan Packaging Ltd.'s brief to the Director.

With reference to the practice of Crown Zellerbach and Martin Paper in selling containers at one price for export and at a higher price for use in the domestic market, the brief of Okanagan Packaging Ltd. states:

". . .

6. If a Canadian manufacturer wished to obtain the export volume in addition to the domestic volume, he would have to lower his price to around \$100.20 per M., (American price plus duty, less duty drawback.) To sell at this price for export, and \$119.00 for domestic, would seem to indicate that the low price was unreasonably low (having the effect or designed to lessen competition or eliminate a competitor,

thereby in breach of Sec.412 (1) (c) of the Criminal Code), or unreasonably high, and the protective tariff was being used to the detriment of the Canadian public, and should therefore be removed.

. . .

24. We feel that if Canadian manufacturers are willing and anxious to undersell American prices disregarding protective tariff, they should also be willing to meet American prices on the domestic market, as the tariff would seem to be unreasonably increasing their required profit margin.

. . ."

Regarding the supplies of corrugated sheets from Martin Paper the brief says:

" . . .

20. On March 13, M.P.P. advised Okanagan Packaging by letter that they now considered us as a competitor, and were no longer willing to supply us with corrugated sheets for the manufacture of partitions. (In 1958, we paid M.P.P. approximately \$220 per ton for corrugated sheets, and this year they are prepared to beat the American price for Tray Pack containers, which works out to less than \$170 per ton if advantage is taken of storage plan. We contend these prices are unreasonably low, and with over \$20 per ton freight included in that price, results in a net selling price of less than the cost of raw materials consumed in manufacturing ton of finished boxes.)

. . ."

And finally the brief says:

" . . .

27. We feel there is justification for believing that the two Canadian suppliers have adopted a joint policy designed or having the effect of eliminating our company as a competitor, - and of course the American suppliers as well. However, they can exist without the Canadian volume, whereas we cannot."

The Director's opinion with respect to this complaint is set out in the Statement of Evidence as follows:

"360. The evidence, in respect of the Okanagan Packaging Limited incident, does not demonstrate agreement between CROWN ZELLERBACH and MARTIN PAPER with respect to prices, nor does it demonstrate that either manufacturer engaged in a policy of selling containers at unreasonably low prices or any other behaviour contrary to the anti-combines legislation. The prices established for the fruit packers by the British Columbia manufacturers were sufficiently low to secure the business for the domestic industry and they were the result of competitive bargaining between the Okanagan Federated Shippers Association and the Canadian and U.S. suppliers. The evidence in respect of this incident does however show that import competition is likely to be most effective, in keeping down domestic prices, when there is an independent converting and distributing industry in a position to look abroad for favourable sources of supply; and it shows how the domestic market can be insulated against the effects of import competition when the suppliers in the domestic market are few and completely integrated."

(Statement of Evidence, Vol.IV, pp.900-01)

## 2. Customs Duties and Pricing

Chapter I of this report indicated that the customs tariff, item 192, provides protection of  $22\frac{1}{2}$  per cent ad valorem on imports of containerboard from GATT countries, including the U.S.A. That chapter also showed that the effective duty rate on imported shipping containers was at a level of 20 per cent ad valorem for imports from countries falling under the customs tariff Most Favoured Nation category. At the same time, however, American containers imported into Canada for the packaging of Canadian products and subsequently re-exported are subject to a refund of 99 per cent of the duty paid on such containers.

Speaking very generally, if American shipping containers are sold domestically at a price of \$100, the Canadian manufacturer of comparable containers can set his price at any level up to \$120 (American price plus 20 per cent duty) if such containers are sold for use in Canada and not exceed the duty-paid price of imported Containers. If, however, imported American containers are re-exported, the landed cost is \$100 plus \$20 less 99 per cent of \$20, or \$100.20. Hence if Canadian manufacturers wish to sell in certain parts of British Columbia containers

which will be used in the export trade, they cannot price them above \$100.20 in the face of competition from the United States.

Reference has been made earlier in this report to the competition since 1952 of imported American shipping containers in British Columbia. This has been effective at least on sales in carload lots and has placed ceilings on the prices charged to large customers by domestic manufacturers as long as such competition continues. This is indicated in a memorandum from A. G. Brown to H. V. Townsend of Martin Paper, dated April 7, 1958. In this memorandum Mr. Brown indicated that a price reduction of 10 per cent by American manufacturers, resulting from a price war in the United States, would be a threat to all Martin Paper's sales in carload lots unless prompt action were taken. Mr. Brown proposed meeting this threat by temporarily reducing prices to large customers by 10 per cent, explaining to them that this was only a temporary competitive move and that prices would return to normal when the situation in the United States was cleared up (Serials A37738-39).

A second memorandum from Brown to Townsend, dated April 10, 1958, indicates more precisely what action he proposed to meet this situation. It shows clearly Martin Paper's policy of following the price lead of Crown Zellerbach:

#### "Competitive Prices

Here is a list of all of the accounts that will be affected by the price decrease currently in operation in the U. S. A. This list has been divided into three main vertical columns and is also segregated by salesman.

In talking to the salesmen, they have submitted the list of customers which they felt would be affected and attacked by Crown Zellerbach in their attempts to meet the American competition. The Carload list which is at the left hand side of the page, are those customers who buy at least one carload in a year. The middle column indicates customers who will be affected by the new can price list which the opposition has issued. The less than Carload list indicated on the right hand side of the page, are those customers who the salesmen feel are large enough to attract Crown Zellerbach into cutting prices.

Rather than wait until the opposition has contacted our customers and shown what heroes [sic] they are in reducing the price, I would like to suggest that we, on Carload business meet the American price by reducing our present price 7 to 10%, on carload quantities only. Since the American prices, before the price war, was 15 to 25% over ours in less than Carload quantities, our present level should, even in the face of their 10% decrease, be more than competitive. However, carload quantities were always equal to



and the 10% decrease will therefore only affect this type of volume.

Therefore, rather than allow the opposition to steal a march on us, we should cut our prices 10% as a standard Carload discount. We should send a letter to all our customers who are carload buyers stating that temporarily we will allow them a 10% discount rather than a  $3\frac{1}{2}\%$  discount on carload orders. This letter should indicate that as soon as the price situation is rectified across the Line, that we will go back to our  $3\frac{1}{2}\%$  discount.

Crown has reduced the prices to the Can Manufacturers and the Canners. Therefore we will have to meet this on the line. We have the copies of the oppositions prices. We obtained it from Hall Packing.

On the final list, as well as the list of our customers, it is our recommendation that we don't make any move until the opposition does. These people have no right to expect a price decrease as a matter of fact we are more competitive. The sales people will keep a close watch on them and if Crown drops their prices we will carry on as we usually do by meeting their prices when the situation arises."

(Serial A37723)

An attached list bore the names of about 80 customers (Serial A37724).

### 3. The Institutional Framework - Fruit Industry

Comprehension of the pricing situation in regard to packaging materials for the fruit industry necessitates a knowledge of the institutions concerned with the growing, packaging, and marketing of fruit in British Columbia. These are described as follows in the Statement of Evidence:

"325. . . . The growers in British Columbia are members of the B. C. Fruit Growers Association. Their products are processed through packing houses, many of which are co-operatives. All these packing houses ship their products through B. C. Tree Fruits Limited, a company operated by a Board of Governors elected annually by the B. C. Fruit Growers Association. This company is the sole marketing agency both for export and domestic sales. It derives its authority from being designated by the B. C. Fruit Board as sole marketing agency for domestic trade and by delegation from the Government of Canada in respect to exports. The B. C. Fruit Board is a creation of the Provincial Government established



under marketing legislation. Okanagan Federated Shippers Association is an association of packing houses. Its function includes negotiation of the terms of purchase of shipping containers for the packing houses. Okanagan Federated Shippers Association, therefore, has considerable bargaining strength when facing manufacturers of packaging products, and its interests are those of the growers and packing houses."

(Statement of Evidence, Vol.IV, p.884)

#### 4. Sequence of Events.

##### (a) Pricing of Cartons and Packing Materials

The establishment of Okanagan Packaging Ltd. and subsequent events are described in the following excerpts from that company's brief:

" . . .

11. In 1958, John Beaven and George Holland formed a new company known as Okanagan Packaging Ltd., primarily for the purpose of manufacturing corrugated partitions, but also to sell and distribute other items consumed by the fruit industry. Mr. Holland has had over 20 years experience in the corrugated industry, nine years with Martin Paper, and resigned from that company at the end of 1956, from the position of Vice President - Sales.
12. Mr. Holland advised the President of Powell River Co.Ltd., in May of 1958 that he was considering organizing a small plant in the Okanagan to manufacture partitions, and would be interested in purchasing corrugated sheets from M.P.P. Mr. Foley said he could see nothing wrong with that, and once they received their price for them, it was the customer's business what he did with them.
13. In June, 1958, Holland & Beaven decided to proceed immediately with plans for the manufacture of cell-pak partitions. Within a month, C.Z. announced plans for a corrugated sheet plant in Kelowna, and shortly after, Martin Paper announced plans for a 32,000 sq.ft. warehouse, construction of sheet plant and warehouse to be started within the next few weeks.
14. We commenced manufacturing the latter part of July, 1958, and even though approximately 75% of all orders had been placed, we received fairly strong support from many of the packing houses.

With some, we found we were severely handicapped through our inability to supply boxes and tier pads along with our partitions. Therefore, we successfully endeavoured to make a tie-up with Western Corrugated Inc., of Wenatchee, Wash., acting as their Canadian sales agent, and also carrying an emergency supply of containers for them in our warehouse. This deal was not completed in time for the 1958 crop year.

. . ."

Two circulars issued by Okanagan Federated Shippers Association on December 17 and 18, 1958 show that this Association, having in mind that two Canadian companies would have manufacturing and storage plants at Kelowna, British Columbia, and that their prices would be competitive with prices of American-made cartons, made no suggestions to packing houses as to the source of cartons or other packing materials (Serials A37732-33).

In the latter part of January, 1959 Crown Zellerbach announced it would not raise prices of corrugated boxes above the 1958 level. On February 23, 1959 both Crown Zellerbach and Martin Paper circulated letters intimating price reductions of unspecified size on containers and interior packing. Both firms asserted that the new prices would yield savings over imported cartons for both export and domestic use.

By February 25, 1959 Okanagan Packaging Ltd. had become the sales and distributing agent for Western Corrugated Inc., an American company. On February 25, 1959 Mr. G. Holland wrote to an official of one packing house setting forth the argument that substantial savings would result from a packer's ordering his annual requirements of cartons for export shipments from Western Corrugated Inc. Mr. Holland asserted that returns on exports could be increased on the average by more than 4 cents per box if imported cartons were used. He made it clear he was not competing for domestic volume (Part of documentation supporting Okanagan Packaging Ltd.'s brief).

A 13-page report signed by J. C. Beaven attached to this letter included calculations of purported savings arising from this plan (Part of documentation supporting Okanagan Packaging Ltd.'s brief).

On March 6, 1959 the Directors of Okanagan Federated Shippers Association held a meeting at which representatives of

B. C. Tree Fruits Limited, Crown Zellerbach (F. A. Scott and W. T. L. Roadhouse) and Martin Paper (H. V. Townsend) were present. From the minutes of that meeting (Serial A37637) as corrected by affidavits sworn by all Directors of the Association present, it appears that Mr. Scott, speaking for Crown Zellerbach alone, advised the meeting that his company was prepared to make substantial price concessions on two types of apple carton, provided the B. C. packers bought all, or approximately all, of their export requirements from domestic sources. If cartons were imported, prices might be slightly higher. Mr. Scott announced a schedule of prices for "tray packs" and six specifications of "cell packs" on the assumption that about 66 per cent of the total requirements would go to the export market and 33 per cent to the domestic market. Mr. Townsend said Martin Paper's prices would be competitive. Mr. L. R. Stephens, Secretary of Okanagan Federated Shippers Association, subsequently advised Mr. Scott that certain quantities of cartons and tray pack containers had been ordered and were in storage in the Okanagan (Serial A37637).

Mr. Scott, in a letter of March 10, 1959 reduced his offer to writing. It included the following condition:

" . . .

These prices are submitted on the basis of no further imports of cartons from the U. S. A., since under our method of calculating, the quantity of U. S. cartons has a direct bearing on our quotation.

. . . "

(Serials A37797-801)

On March 10, 1959 Mr. Scott sent the "Okanagan Fruit Packing Industry" a letter which contained two alternative proposals on the prices of cartons. One proposal referred the packers to Crown Zellerbach's 1959 price list which gave separate prices for cartons for the domestic and export markets, which prices Mr. Scott claimed were lower than American list prices. The other proposal was a system of single prices arrived at by averaging his firm's export and domestic prices on the basis of varying assumed splits between domestic and export sales for each type of container. Mr. Scott alleged certain additional advantages derivable from purchases of cartons from his company, including purportedly larger storage allowances and a discount for early delivery. (Photographic copy of this letter was part of documentation supplied by Okanagan Packaging Ltd.).

Martin Paper, although it did not circularize a detailed price list at this time, wrote to the packing houses on March 11, 1959 stating that its prices would be competitive with those of any other supplier (Serial A37661). The minutes of the meeting of the Directors of Okanagan Federated Shippers Association on March 13, 1959 show that Martin Paper had advised the Secretary, Mr. L. R. Stephens, that its prices would be fully competitive with those of Crown Zellerbach (Serial A37638).

A meeting of the same Directors was held on March 17, 1959. Messrs. R. Johnson and F. Bacon, representing an American firm, Kieckhefer Container Co., and Messrs. C. Todd, J. Beaven and G. Holland, representing Western Corrugated Inc., were present, the latter two at least representing Okanagan Packaging Ltd. also. Mr. Johnson explained that his company's delivered prices were exactly the same as those it charged to American packing houses in an adjacent area of the U. S. A; and, although the Canadian duty was extra, drawbacks would make the resultant prices lower than those of similar Canadian cartons. Mr. Todd expressed similar views. Mr. Holland also spoke of the revenue to the industry arising from drawbacks and the advisability of the packers' maintaining themselves in a competitive position. After the withdrawal of the visitors the Directors decided on a course of action:

" . . .

It was then unanimously agreed that we should ask the Canadian companies to revert to their original quotation, dated March 10th, but allow the industry freedom to import up to a total of 100,000 cell packs and 200,000 tray packs.

This proposition was relayed to Mr. Frank Scott through Mr. Roadhouse, by phone, and to Martin Paper Products, through Mr. Lewis.

. . ."

(Serials 37639-40)

On March 18, 1959 Mr. Scott wrote Mr. L. R. Stephens as follows:

"We have today received your advice of the changes in the quantity of cartons which you intend to purchase in Canada. Under our averaging basis, the total quantities and the percentages for export and domestic determine the price. Since these quantities are now altered, we must withdraw all previous lists.



New prices are attached and there are two bases. Where the boxes are used for apples sold in Canada, the price column marked 'Domestic' will apply. Where the boxes are used for packing export apples, the competitive level is the U. S. list after duty drawback. In these instances we will make an allowance to meet this competitive price and those prices in the column marked 'Export' will apply.

Since export quantities cannot be determined at the time of purchase we will bill at the 'Domestic' level. Upon receipt of certified export entries we will make the competitive allowance to give you the 'Export' price.

At the same time we must advise that our Proposal to sell through your organization is withdrawn. We will continue, as in the past, to solicit orders, ship, and bill directly to individual packing houses."

(Serial A37805)

The Statement of Evidence comments:

"335. . . .

The attached prices (Serial A37806) were the same as those which had been included as the first proposal in the circular of March 10 to the packing houses. A copy of the letter was sent to all the Directors of Okanagan Federated Shippers Association. There is no evidence that MARTIN PAPER took any action at this time."

(Statement of Evidence, Vol.IV, p.895)

At their meeting of March 20, 1959 the Directors of Okanagan Federated Shippers Association accepted Crown Zellerbach's proposals and abandoned plans for increased imports, as appears from the following extract from the minutes:

" . . .

President Kinnard presided and the directors reviewed the reaction of the Crown Zellerbach Canada Ltd. to the proposal made on the part by the directors, and concluded that Mr. Scott had apparently misunderstood the request made. However, it was apparent that he was not prepared to agree to any plan that would allow for any imports of cartons in excess of present commitments, viz. 60,000 Cell Pack cartons and 160,000 Tray Pack cartons.



Mr. Roadhouse was then invited to the meeting and was advised of the views of the directors, viz. that if the Canadian manufacturers were unwilling to allow their previous price plan to remain effective with the additional imports of 40, 000 Cell Pack and 40, 000 Tray Pack cartons, then the directors would reluctantly agree to the second price proposal, viz.

<u>Apple Tray Pack</u>	<u>Average Price</u>
33# Corr. Med. (balance specifications as during 1958 season - anticipated imports 160, 000)	\$308.21

<u>Cell Pack Cartons</u>	<u>Size</u>	
(60, 000 imports)	84	438.57
	96	466.44
	120	499.19
	140	513.57
	160	462.49
	200	492.22

The Okanagan Federated Shippers would be willing to act as an agency or transfer of storage allowance to shippers qualifying for it.

The Okanagan Federated Shippers would arrange with B. C. Tree Fruits Ltd. for the filing of any drawback claim for the account of the manufacturers for a service charge to be agreed upon and which, it was expected, would not exceed \$1, 000.00.

Mr. Roadhouse intimated that the official price-list would be issued shortly and, further, that there would be a reduction in the Peach Cell carton.

Mr. Roadhouse agreed to transmit the directors' views to Mr. Scott and to advise his reaction.

The meeting adjourned at 12.30 P.M.

S. About 3 P.M. on the 20th, Mr. Roadhouse indicated that the directors' proposals were favourably received and final acceptance would, no doubt, be forthcoming early Monday, March 23rd."

(Serial A37641)

Further events are recorded in the Statement of Evidence as follows:

"337. On March 24, 1959, Mr. Scott sent to Mr. Stephens, and on March 25 to all packing houses, the official price lists for the 1959 season, these being the average prices which had been proposed at the meeting of March 6 (Serials A37811-2, A37814, A37816). On March 26, 1959, Mr. Townsend notified its customers of the changed prices, sending price lists identical in content, though not in form, to those of CROWN ZELLERBACH." (Serials A37661-71 DSI)

(Statement of Evidence, Vol.IV, p.896)

(b) Supplies of Corrugated Sheets

The launching of Okanagan Packaging Ltd. in June, 1958 and its starting business in July, 1958, and the announcements by Crown Zellerbach and Martin Paper of their respective plans for facilities in Kelowna are dealt with in paragraphs 11 to 14 of Okanagan Packaging Ltd.'s brief, quoted earlier in this chapter.

With regard to the company's efforts to obtain supplies of board from Martin Paper, Okanagan Packaging's brief says, as quoted previously:

" . . .

20. On March 13, M.P.P. advised Okanagan Packaging by letter that they now considered us as a competitor, and were no longer willing to supply us with corrugated sheets for the manufacture of partitions. (In 1958, we paid M.P.P. approximately \$220 per ton for corrugated sheets, and this year they are prepared to beat the American price for Tray Pak containers, which works out to less than \$170 per ton if advantage is taken of storage plan. We contend these prices are unreasonably low, and with over \$20 per ton freight included in that price, results in a net selling price of less than the cost of raw materials consumed in manufacturing a ton of finished boxes.)

. . . "

With regard to these figures, the Statement of Evidence says:

"340. . . . The conclusion in the brief is that this proves that the present box prices are too low because they are below the cost of raw materials. This contention, however, does not recognize

the fact that MARTIN PAPER's raw material costs and the price at which it is prepared to sell corrugated sheets to Okanagan Packaging Limited are not the same thing. The 1958 price for corrugated sheets was in fact the price MARTIN PAPER decided to charge to Okanagan Packaging in response to a competitive quotation from a would-be supplier in the U.S., and was low enough to secure the business (Serials A37744 and A37748-54). The prices for 1959 containers were likewise determined at a level designed to underbid the U.S. competition."

(Statement of Evidence, Vol.IV, p.896)

On February 10, 1959 Mr. Holland wrote Mr. Townsend asking Martin Paper to supply Okanagan Packaging Ltd.'s requirements of corrugated sheets. The letter proposed that Okanagan Packaging Ltd. should manufacture all of Martin Paper's requirements of partitions and suggested that Martin Paper might lease its machine assembler to Okanagan (Serial 37744-46).

Mr. Townsend referred this proposal to Mr. G. B. Hills, the operating head of the company. The latter's reply to Mr. Townsend, dated February 27, 1959, was as follows:

"OKANAGAN PACKAGING

Further to our telephone conversation this morning and in particular reply to your memorandum of February 18th, on this subject, this will confirm to you my conclusion that Martin should not sell sheets, or anything else, to this firm.

We have gone to a tremendous amount of trouble and capital expenditure to provide facilities, both in New Westminster and in Kelowna, for the complete manufacture and distribution of all the requirements of our customers for corrugated. Corrugated is our business, right through to the finished product; I cannot feel any other way than that deviating from this principle will decrease our volume and decrease our earnings.

If this company wants to go into the business they are quite at liberty to attempt to acquire raw materials elsewhere and that is in the normal competitive scheme of things. But, as far as this company is concerned, we will not jeopardize our own business by handing over any share which we now have or hope to have, to anyone.

I am leaving it to you to inform George Holland and

Okanagan Packaging of our policy in this regard."

(Serial A37743)

This decision was given to Mr. Holland on March 13, 1959.

There is no evidence that Okanagan Packaging Ltd. took any initiative toward obtaining supplies of corrugating sheet from Crown Zellerbach. Mr. Holland's letter to Mr. Townsend of February 10, 1959 did, however, include the following:

" . . .

Up to the present time, we have not purchased any goods from Crown Zellerbach, and I believe they have now given us up as a lost cause. (At least we were not invited to their grand opening.) Last season, however, they indicated they would like to do business with us, saying they were prepared to meet any competitive price. . . .

. . . "

(Serial A37744)



## CHAPTER XII

### SUMMARY OF THE EVIDENCE IN PART I

#### 1. Industry Structure

This inquiry is concerned with two products, containerboard and shipping containers, the former being the raw material used in manufacturing the latter.

##### The Containerboard Industry

Paperboard shipping containers have been of two main types: corrugated and solid fibre, but corrugated containers have greatly increased in use over the years and have largely displaced solid board containers with the result that the latter are now relatively insignificant in the trade. Containerboard for the manufacture of corrugated containers is of two types, linerboard and corrugating medium. These are classifiable by component material into kraft or jute linerboard, and kraft, jute, straw, or semi-chemical corrugating medium. Jute and straw containerboards have declined considerably in relative importance in the last two decades. Production of containerboard has roughly doubled from 1947 to 1960.

Imports of containerboard are of quite minor importance in relation to Canadian supply (Canadian production plus imports), being only 4.5 per cent of it in 1958 and 3.9 per cent in 1960. Exports, growing in importance, amounted to 10.1 per cent of Canadian production in 1958 and 17.3 per cent in 1960. The effective rate of customs duty on imports of containerboard is  $22\frac{1}{2}$  per cent ad valorem.

Containerboard is manufactured by nine firms east of the Rocky Mountains and by two firms west of the Rockies. In 1960 the major suppliers to the Canadian market were St. Lawrence, Bathurst, C.I.P., and Hinde & Dauch in that order. Hinde & Dauch was by then owned by St. Lawrence. These firms accounted for 75.92 per cent



of total Canadian shipments of containerboard in 1960, a considerable drop from the figure of 92.18 per cent held by the four largest firms in 1947. (From 1947 to 1954 the four largest firms were St. Lawrence, Bathurst, Hinde & Dauch, and Gair).

Throughout the post-war period the major market for containerboard has been in Ontario and Quebec, which consumes over 80 per cent of total Canadian shipments. In this period the central Canadian market has been dominated by a small number of firms although there have been new entrants into the market in recent years. In 1947 four firms (Bathurst, St. Lawrence, Hinde & Dauch, and Gair) supplied 97.90 per cent of all shipments to this market. Ostensibly, in 1960 four firms, (Bathurst, Hinde & Dauch, C.I.P. and St. Lawrence) held 84.74 per cent of this market; but if one reflects that St. Lawrence and Hinde & Dauch were one firm (the former acquired the latter in 1959) it is clear that only three firms held 84.74 per cent of this market. With the inclusion of three other integrated firms (Gair, Acme and Abitibi) the share of all integrated companies rises to 99.11 (Table 14).

If we look at the picture for containerboard in the other regional markets, we find the position of the integrated board companies in 1960 to be as follows:

In British Columbia, where Crown Zellerbach (Pacific Mills) formerly had the entire market, there were now two integrated board companies which between them had 100 per cent of the market (Table 13).

In the three Prairie Provinces four integrated board companies had 80.44 per cent of the market, and two of these had 78.40 per cent (Table 15) (Sidney Roofing being part of the MacMillan, Bloedel and Powell River entity).

In the Maritimes three integrated board companies had 99.39 per cent of the market, and two of these, Bathurst and Minas Basin, who were themselves associated as owners of Maritime, had 95.41 per cent (Table 16).

Thus, in every region of Canada, as well as in the country as a whole, integrated board companies enjoyed the preponderant share of the containerboard market, almost all of it except in the Prairies.

### The Shipping Container Industry

Manufacturers of shipping containers (sometimes known as converters) convert rolls of containerboard into corrugated boxes. Conversion involves fluting the corrugating medium and attaching it to the linerboards to make a combined board which is then slotted, folded, printed and closed. The product is tailor-made, not manufactured until specific orders have been received from customers.

Imports in the post-war period have been an insignificant part of Canadian supply. The industry is protected by an effective minimum tariff rate of 20 per cent ad valorem.

In 1947 there were 23 container plants in Canada. Between that year and 1961 many new plants were built, existing facilities in others were expanded and modernized, and some old plants were abandoned. In 1961 there were 35 plants in existence, but chiefly by reason of mergers there were only eleven independent business enterprises. (In this context the word "independent" means independent of other shipping container firms, but not of containerboard mills, for in several instances shipping container plants that were independent of other container firms were owned by board mills).

Prior to World War II, there were two large integrated board-and-container firms in Canada, Gair and Hinde & Dauch. During the post-war period a number of board firms acquired shipping container firms with the result that throughout the post-war period increasingly important proportions of the Canadian production of both containerboard and shipping containers were made by integrated enterprises.

Acquisitions by containerboard companies had proceeded so far that by 1960, integrated board companies (owning container companies) had 97.84 per cent of all Canadian shipments of containerboard, the three largest having 75.92 per cent (Table 12), and their container companies, produced 88.98 per cent of total Canadian production of shipping containers, those of the three largest having 59.71 per cent (Table 11).

Looked at from another point of view, whereas in 1945 (before Bathurst acquired Shipping Containers and Kraft Containers) there were some fourteen container companies that were independent of board companies, and eleven of them in 1947, by 1960 only three remained, viz., Sherbrooke, Superior, and Dominion Containers (Champlain being controlled by Dominion Containers they are regarded as one entity). This was true even though several small companies had entered the industry during the period, Sherbrooke being one of these.

As in the case of containerboard, there are four principal market areas. Throughout the period 1948-54, the shares of total production which were held by the larger firms were remarkably stable in most market areas.

In each market area a small number of firms manufactured the largest proportion or all of the containers produced. In the period 1948-54, two firms accounted for 100 per cent of the output of containers in the Maritimes, one firm the entire production in British Columbia, two firms the entire production in the Prairies.

By the end of 1954 Bathurst had acquired three shipping

container firms which during that year made 30.41 per cent of the total production of the provinces of Ontario and Quebec. At the same time Hinde & Dauch, as a result of having acquired two subsidiaries, owned capacity which in 1954 accounted for 28.17 per cent of the Central Provinces' production. These two integrated concerns thus accounted for 58.58 per cent of this area's production toward the end of 1954. If to this one adds the production of Gair and of Hygrade, one finds that four business enterprises controlled 81.34 per cent of the capacity for producing shipping containers in this area. By 1960, four large companies accounted for 77.0 per cent of the production of the Central Provinces. Two companies accounted for 86.15 per cent of total production in the Maritimes, and a third made the remainder. Two companies accounted for 87.34 per cent of total production in the Prairies, and a Bathurst subsidiary made the remainder. In British Columbia two companies accounted for 100 per cent of production.

In considering the extent and effect of integration regard must be paid to the fact that certain large integrated producers consume much of their own production of containerboard in their own converting operations and thus are not capable, in any large way, of supplying the requirements of independent container manufacturers. It will be recalled that integrated firms produced almost 90 per cent of the total output of shipping containers in 1960. From information furnished the Commission as to domestic shipments of containerboard in 1960 it is found that the following integrated companies used in their own converting operations more than 90 per cent of their shipments to Canadian plants: Bathurst, Hinde & Dauch, Crown Zellerbach and MacMillan, Bloedel and Powell River. Gair and C.I.P. used more than 70 per cent of their domestic shipments in their own converting plants and about 30 per cent of St. Lawrence's domestic shipments went to its subsidiary, Hinde & Dauch.

The foregoing comments relate to the supply of containerboard and indicate the limitation of independent sources of supply from which an independent manufacturer of containers could seek his requirements of board. The picture is much the same if an independent producer of board attempted to find unattached buyers. From the data as to receipts of containerboard in 1960 furnished to the Commission by container manufacturers and the information as to shipments of board it is possible to determine the quantities of board supplied by parent or related companies and the quantities secured from other sources.



From the totals compiled the Commission finds that in 1960 slightly more than 75 per cent of the board received by integrated container plants came from the parent or related companies. In view of the fact that the integrated firms produce the predominant part of the total production of containers the overall situation is that about 67 per cent of the total deliveries of board to all container plants (integrated and independent) consisted of deliveries to integrated plants from the same or related companies.

It is therefore apparent that an important proportion of the capacity for producing shipping containers is unavailable as a market to independent board firms in any significant way. This must be viewed in the light of the fact that, as shown by the evidence, there appear to be no technological reasons for the integration of the two stages and no economies in selling to a captive container plant as compared with an independent one.

## 2. The Pricing Arrangements

### Pricing from 1939 to 1947

Prior to World War II, the manufacturers of shipping containers had been members of a combine operating through Container Materials Limited. They were prosecuted through the courts in the years 1940-42 and convicted. The board manufacturers pleaded guilty to charges of price-fixing in 1942. C.M.L.'s price-fixing activities were carried on by means of a pricing manual. The Wartime Prices and Trade Board in December, 1941 froze the price of shipping containers at levels which had been set by C.M.L. in June, 1940. C.M.L.'s pricing manual was the basis of the W.P.T.B.'s pricing system until March 28, 1946, when it was replaced by Administrator's Manual "A", the latter having been prepared by a committee under the wartime Administrator of Shipping Cases. In a revised form it became Administrator's Manual "B". The latter remained in force until the suspension of price control on shipping containers on April 2, 1947. Administrator's Manuals "A" and "B" provided for calculating shipping container prices by adding a series of pricing components plus a uniform markup of 10 per cent. It is clear therefore that from before 1940 until April of 1947 price competition had been absent from the industry despite the cessation of C.M.L.'s price-fixing activities.

During wartime the principal manufacturers had many opportunities to meet and discuss plans for the post-war period. One of the avenues of contact was the Containerboard Bureau,

a second was the Cost Committee formed under the direction of the Administrator of Shipping Cases, F. C. Hayes, and a third was the Board Section of the Canadian Pulp and Paper Association. A final avenue of contact was Shipping Container Materials Manufacturers Association (until 1942) and the firm of Hardy & Badden (1942-1947). In addition there is evidence indicating some informal discussions in Toronto by the four board firms. The Administrator's Cost Committee had been formed early in 1943 and by the end of 1944 had produced a comprehensive report which became the basis of Administrator's Manual "A".

#### Industry's Manual "B"

Administrator's Manual "A", a document of 41 pages, was turned into Manual "B" by the deletion of 8 sheets of material costs and their replacement by 20 new pages of revised costs of materials. Manual "B" was authorized for use on January 10, 1947. Using Administrator's Manual "A" as a model, F. C. Hayes began work some time in 1946 on the task of turning it into a manual useful for pricing in the post-war period and had it all in draft form by November 1, 1946 although the work was not completed until after the suspension of price control. This manual was separate and distinct from Administrator's Manual "B", was printed and distributed by the firms in the industry and paid for by them. This manual is sometimes referred to herein as Industry's Manual "B". The printing was not completed until after the suspension of price control and the distribution of the manual occurred in June, 1947 although price controls on shipping containers had been suspended in April of that year. Industry's Manual "B" consisted of some 150 pages of text and 40 tables dealing with the areas of cartons and sheets as well as diagrams and detailed illustrations showing the application of the tables in the Administrator's pricing manual. Industry's Manual "B" was always referred to by the industry as a "costing manual". It did not specify mark-ups but only the method and figures for computing the "costs" of the various factors involved in making containers. It is the Director's contention, however, that this manual was intended to be used for the purpose of pricing and price-fixing after the end of price control, and that it was so used.

The post-war arrangements took definite form in the period beginning some time before February 11, 1947 and ending in December of that year. F. C. Hayes, formerly an officer of Shipping Containers, and during wartime the Administrator of Shipping Cases, was the key figure in this work. He organized a company under the name of Container Statistics Limited. By December of 1947, eight companies had signed contracts with Container Statistics Limited. Three other companies also signed contracts, although the dates on which they did so are unknown. A number of companies which did not sign contracts with either F. C. Hayes or Container Statistics Limited paid substantial sums of money for copies of the Container Statistics Manual (often



called the Ready Reckoner Manual) or for the services of F. C. Hayes or for some combination of these. The status of these latter companies in the arrangements was exactly the same as that of the companies that did sign contracts.

#### The Manual of Container Statistics Limited

The Container Statistics Manual was in the form of a ready reckoner. It included a series of tables of "costs" which the Director contends were actually price components corresponding to materials, conversion, closure, printing and certain additional pricing elements such as machine charges and small order charges. The various "costing" tables were set up according to the specifications for different corrugated shipping containers. By means of the Manual it was possible to add up the components for a corrugated shipping container of any specification which might be required by a customer and in this way to obtain the total "cost" of the container, which with the addition of a mark-up would give the price. Whenever the use of the various tables of the Container Statistics Manual left any doubt as to what the amount of a particular component should be, directions were usually included to increase the amount of the component rather than to decrease it.

Three main issues of the Manual were prepared by Mr. Hayes in the period 1948 to 1954. For each issue of the Manual there were different editions, each of which applied to a specific zone or group of zones. These zones were: Newfoundland, Maritime Provinces, Ontario-Quebec, Manitoba-Saskatchewan - Zone 1, Saskatchewan - Zone 2, Alberta and British Columbia.

By the use of the "cost" material from the Container Statistics Manual it is possible to calculate the prices which were in effect in the various zones or regions of Canada at any time between October, 1948 and the end of 1954 as long as one knows the mark-ups which were used in the respective regions at such times. The evidence shows that the companies used uniform mark-ups in each particular zone and that the result was uniform prices within each zone.

The relationships between the price levels in the various zones are of some interest. In 1948 a typical box priced in this way showed a pricing structure in which the highest price was charged in Saskatchewan, Zone 2, and the lowest in Ontario and Quebec with prices in the other zones falling in between these extremes. The pricing of this box in the period after May, 1954 showed some re-arrangement of the structure, but again Ontario and Quebec enjoyed the lowest price and Saskatchewan, Zone 2, again had the highest with other pricing areas falling in between these two extremes. The general pattern was for prices to increase as one went west from the Central Provinces until one reached Zone 2 of Saskatchewan after which there was a drop-off to a lower level as one approached the Pacific Coast, and in a somewhat

similar manner prices increased as one went east from the Central Provinces into the Maritimes including Newfoundland.

There is considerable evidence that the Container Statistics Manual was never truly representative of the costs of the industry. Derived as it was from Administrator's Manual "A", the Container Statistics Manual used the same methodology and incorporated the same defects and limitations. The costings in the Administrator's Manual "A" were not based on the costs of all of the firms of the industry. Administrator's Manual "A" was based on many arbitrary assumptions. As it was based on a particular stage in the evolution of the technology of the industry, its costing methods became increasingly obsolete as time passed and changes occurred in the industry's technology.

Revision of the Container Statistics Manual was undertaken from time to time by Mr. Hayes. Although after the suspension of price control there was an Industry Cost Committee consisting principally of four men, one from each of Gair, Hinde & Dauch, Corrugated Paper Box and Canadian Wirebound, this Cost Committee had very little to do with the compilation or revision of the "costs" which went into the Container Statistics Manual. Much of the "costing" material used in revising the Manual was gathered in an ad hoc manner by Mr. Hayes from a restricted number of companies. It was his practice when revision was contemplated to send out to firms in the industry suggestions for changes in the methods of, or figures to be used in, calculating the various "cost" components, draft tables and memoranda together with requests for further suggestions or criticism. After having received replies from the firms, he revised his suggestions, recalculated tables and re-submitted this material to the firms for further consideration. By these means and sometimes also by meetings of representatives of the industry, a consensus was arrived at as to the appropriate changes in methods of "costing" and in the actual quantitative changes in "costs" to go into effect on particular dates. Such proposals were then either incorporated into an existing Manual or gave rise to an entirely new issue of the Manual.

There is a considerable volume of evidence as to the manner in which the Container Statistics Manual was used. For example it is clear that Mr. F. C. Hayes on request interpreted the application of the Manual to specific jobs of pricing. Again, although Mr. Hayes denied that he had anything to do with mark-ups and although he maintained that his work was on costs exclusively, it is quite clear that he was in fact very much concerned with the mark-ups and on occasion issued documents with calculations of prices of boxes including mark-ups. Shipping container manufacturers located in a particular zone and selling in that zone uniformly applied these mark-ups to the "costing" components obtained from the Container Statistics Manual and charged the resultant prices to all customers within the given zone. These uniform mark-ups were changed from time to time, generally on the same

dates on which revisions were made to the Manual. On other occasions, however, changes in mark-ups occurred without any revision to the "costing" components contained in the Manual, the resultant price increases coming about solely as a result of the changes in the mark-ups or in additional mark-ups called surcharges. These surcharges were stated to be necessary to cover increased costs of the manufacturers.

Mr. Hayes initiated and carried through negotiations between shipping container firms with a view to establishing uniform freight charges to be put into effect by the producers of any given area when selling into a particular market. On some occasions he did this in conjunction with advice to the companies as to what mark-up percentages would be appropriate in particular markets.

There is evidence that Mr. F. C. Hayes kept corrugated box firms in particular regions of the country fully aware of the "costing" components, mark-ups, and prices in force in other areas of the country from which they might receive competition, as well as the freight rates on the movement of boxes between regions. The end result was that any firm receiving this information would have a very clear idea of the maximum prices that could be charged in various areas without exceeding the levels established by the Container Statistics system for those areas.

Mr. Hayes was sometimes asked by a particular firm to ascertain for it the mark-up or price currently being charged by a competitor in a particular zone for a particular construction of box. On such occasions Mr. Hayes made inquiries from the other firm and passed the desired information on "costs" and mark-up back to the firm which made the original request. On occasions when a particular firm was not certain of the appropriate way to use the Container Statistics Manual in "costing" a particular box, Mr. Hayes was called upon to consult with another firm or firms making this particular specification of box and to ascertain the exact manner in which they used the Container Statistics Manual. It is clear that the aim of such consultation was to avoid any possible variations in interpretation and therefore to ensure uniform use of the various "costing" factors as well as use of the same mark-up within each zone.

There is also evidence that officers or employees of particular shipping container firms consulted each other on the use of the Container Statistics Manual.

#### Standard Price Lists

A group of instruments used by the firms associated through Container Statistics Limited or F. C. Hayes were called "Standard Lists". Such lists were prepared for single-faced corrugated rolls, containers for the canning industry ("Canners Cartons") and containers for the



brewing industry ("Brewery Cartons" or "Beer Cartons"), as well as certain other products of less significance. These lists might simply be lists of the Manual factors for each size and style of container and which therefore gave the sum of the "costing" components before the addition of the mark-up. Or they might set out the selling price (including mark-up) of each size and style of container. In the case of single-faced corrugated rolls, the standard lists set out pricing information which could not be calculated through the Manual because pricing of these products was incompatible with the Manual system. There is no question but that they were definitely price lists.

Mr. Hayes's evidence indicates that he prepared standard lists for single-faced corrugated rolls. Such lists of standard prices were found on the premises of many firms and were used in the pricing of these products.

Mr. Hayes indicated that he had prepared and distributed standard lists for canners cartons and distributed them to all firms in the east. Although Mr. Hayes's justification for the standard canners list was that they served as a guide for manufacturers and as a labour saving device, the evidence indicates that this was not their sole or even their chief purpose. Mr. Hayes also prepared standard lists for brewery cartons. These were circulated to the industry and were used in pricing as were the canners' lists. Again, as in the case of standard lists for canners cartons, Mr. Hayes defended lists for brewers cartons as labour saving devices.

These standard lists standardized manufacturing tolerances, thereby eliminating the possibility of price discrepancies arising from variations in the amount of material actually used. The manufacturer in practice, made boxes to the specifications of the buyer, which might vary from those used in preparing the standard lists.

#### Adherence to Trade Customs of the Paperboard Industry

It has been noted earlier in this summary that one of the avenues of contact for the manufacturers of shipping containers and containerboard during the period of price control was the Board Section of the Canadian Pulp and Paper Association, an avenue of contact which continued after the suspension of price control. The Board Section was responsible for the compilation and publication of a booklet called "Trade Customs of the Paperboard Industry in Canada" which it revised in 1946. A reprint of it was issued in January, 1950.

Section "B" of this booklet dealt with containerboard grades of paperboard for the manufacture of shipping cases. It standardized conditions of sale, terms of delivery, basis of claims, manufacturing tolerances and standard tests of quality. It set out the standard

grades of containerboard together with the standard caliper and standard colours of each grade of board. Clearly the Trade Customs, if adhered to by the containerboard manufacturers would, on the assumption of uniform prices of containerboard, achieve a uniformity of terms and conditions of sale, delivery, claims, manufacturing tolerances and quality and would therefore eliminate competition by way of board of above-standard quality. Because imports of containerboard were never important in the period under consideration, the standardization of containerboard tended to standardize the quality of shipping containers and to eliminate quality competition from this market as well.

The question arises, of course, as to what extent the Trade Customs were in fact observed by the board firms. The testimony of Mr. Cockerill of Bathurst clearly indicates that his firm had never done anything in connection with containerboard grades which conflicted with the Trade Customs, that in the revision of the Trade Customs in 1946 nothing was put in with which his company did not agree, that all the trade customs in the book were exactly the same for everybody. Although Mr. Cockerill insisted that the Trade Customs were a compilation of actual industry practices at the time that the book was revised in 1946, the fact is that at the time of the revision the production of the industry was still under strict control as to weight basis, caliper, and price by the Wartime Prices and Trade Board. The conclusion is inescapable that the revision of the Trade Customs was undertaken with a view to its use at a future date when price control would no longer be in effect.

### 3. Price Increases in the Post-War Period

#### From the End of Price Control Until the Establishment of the Container Statistics "Costing" System

Although price control over shipping containers was suspended in April, 1947 and although at about the same time the Wartime Prices and Trade Board simultaneously authorized a price increase for containerboard, which remained under control until the following June, shipping container prices did not rise at this time with the exception of those obtaining in the Maritime Provinces.

The first rise in the price of containerboard after its release from control occurred in October, 1947, and amounted to 10 per cent. At this time the prices of shipping containers rose in Ontario and Quebec, Manitoba and Saskatchewan but not elsewhere. This rise in the price of containerboard and of shipping containers was preceded by a meeting of officials of the industry in Toronto on September 30. A telegram from Mr. Hindle of Martin Paper to his company, despatched after 3 P.M. on September 30 indicates that an agreement to increase



prices was reached. It reads as follows:

"MEETING DECIDED TO INCREASE BUT JUST WHAT PERCENTAGE TO BE DETERMINED LATER STOP FURTHER DISCUSSIONS TO BE HELD IN MONTREAL WHERE I AM NOW GOING RECEIVED YOUR LETTERS AT TORONTO PHONE YOU FROM MONTREAL

D. A. HINDLE"

(Serial 8430 MPP)

Many officials who were questioned about this Toronto meeting or a Montreal meeting denied either all knowledge of such a meeting or meetings or that they had attended the Toronto meeting or any meeting in Montreal. Their evidence was given about nine years after the event.

The chief board firms in Eastern Canada put into effect increased and identical prices on all grades of board, although the dates on which they became effective were not the same for all firms. The effective dates of the increased prices for shipping containers varied from firm to firm over a 27-day period, October 1 to October 27. With two exceptions all companies in Ontario and Quebec about which there is evidence put into effect exactly the same price increase, 5 per cent on the existing prices which in turn were equal to Manual "B" costs plus 10 per cent. Hence the new prices were equal to Manual "B" costs plus 15 per cent.

In Manitoba and Saskatchewan, both Martin Paper and Hilton increased their prices at this time. Although the prices of the two companies diverged slightly, the evidence shows that this divergence was of no real consequence.

In Alberta, some price competition existed and continued well into June, 1948. No price increase occurred in British Columbia in October, 1947 but in March, 1948 Canadian Boxes increased its prices for the British Columbia zone by  $7\frac{1}{2}$  per cent. The prices at that time therefore became Manual "B" costs plus 10 per cent plus  $7\frac{1}{2}$  per cent.

The Adoption of the Container Statistics "Costing" System in Western Canada - July 1948

There is considerable evidence of price competition in the Prairie Provinces in the period from November, 1947 to July, 1948 and also of attempts of the corrugated shipping container producers in that area to agree among themselves to stop or limit this price competition.

These efforts, however, seem to have been largely unsuccessful, for the evidence indicates that a competitive pricing situation existed in Alberta as late as March, 1948.

Mr. Hayes had completed a proposed Manual for the West prior to mid-March, 1948 and in April of that year undertook a trip to Western Canada to acquaint firms in British Columbia and the Prairies with this Manual. At meetings in Vancouver several of the western producers agreed at this time to become associated with Container Statistics Limited and to put the Manual system into effect. The commencement of "costing" under this system was delayed for some time because the western producers were awaiting the outcome of discussions in Eastern Canada between the board and container producers concerning a proposed price increase. Any increase in the price of board or shipping containers in Eastern Canada would, of course, have had a direct bearing upon the prices charged or chargeable by western Canadian producers of shipping containers. Considerable correspondence passed between Mr. Hayes and the western firms and further consultation occurred between the western firms in June, 1948.

The western firms, impatient of the delay in Eastern Canada, finally moved on their own initiative. On July 5, Pacific Mills adopted new prices for paperboard and on the same day its subsidiary, Canadian Boxes, put into effect the Container Statistics Manual for British Columbia and Alberta. On July 8, Martin Paper and Hilton adopted the Container Statistics Manual for use in Alberta, Saskatchewan and Manitoba. It is significant that the new "costing" basis and the mark-ups which were used by the western firms in the British Columbia-Alberta and Saskatchewan-Manitoba regions had been distributed by Mr. F. C. Hayes in a memorandum dated July 2, 1948. Although this memorandum purported to be a record or summary of the conditions in British Columbia obtaining at the time of the writing of the memorandum, it was in fact of an exact statement of the "costing" methods and mark-ups put into use in British Columbia three days later.

#### The Adoption of the Container Statistics System in Eastern Canada - October 1948

Although negotiations occurred between the eastern firms in the first half of 1948 concerning the adoption of the Container Statistics system, these did not come to fruition until the fall of that year. The Eastern Ready Reckoner had been distributed prior to April 8, 1948. Mr. Hayes called a meeting of his clients for Thursday, May 6, at the Royal York Hotel in Toronto. The agenda for this meeting was circulated by Mr. Hayes and was the subject of very careful consideration by Hinde & Dauch. Part of the agenda clearly dealt with "costs", discounts, machine charges and the relationship of freight increases to "costs". Correspondence and negotiation continued until the end of September.

The eastern board mills announced increases in the prices of containerboard in early October. Brompton made the first of these announcements on October 4, the new prices being effective October 5. Mr. Hayes knew in advance of the board manufacturers' intention to raise prices and passed on his information to a Maritime company. The first announcement of increased prices for shipping containers was made by Canadian Wirebound on October 8, 1948. Meanwhile, Mr. Hayes on October 7 had sent identical form letters and Manuals, the latter containing material "cost" sheets based on the new containerboard prices, to manufacturers in the Central Provinces. The Quebec and Ontario shipping container firms did not all announce the same effective dates for the increased prices but staggered them over a period stretching from October 8 to October 27. Maritime firms made their prices effective between October 15 and 19. The companies' pricing records indicate that firms of the Central Provinces adopted the Container Statistics Manual at this time and a standard mark-up of 5 per cent and continued to adhere to the terms and conditions of sales established during the regime of Manual "B".

No price increases occurred in British Columbia at this time. The western box companies doing business in Alberta adopted new pricing for that territory based on the continued use of the Manual plus a mark-up increase from 10 per cent to 15 per cent. Canadian Boxes changed its prices on October 1, Hilton on October 12, and Martin Paper probably around October 13.

In the Manitoba-Saskatchewan zones, increases in prices came about as the result of the adoption of new material cost sheets for the Manual. Otherwise the same Manuals and mark-ups of 10 per cent remain in effect.

About October, 1948 therefore, Container Statistics Limited's system of pricing by means of the "costing" components set out in the Container Statistics Manual and uniform mark-ups for each region had been fully established.

#### Other Price Increases in the Period 1948-1954

The board and shipping containers firms associated through the arrangements with F. C. Hayes and/or Container Statistics put into effect increases in the prices of containerboard and shipping containers at various times between October, 1948 and the end of 1954.

Prices of containerboard and shipping containers were raised September, 1950 in Eastern Canada. A new issue of the Manual was adopted in Eastern Canada at this time. Price increases occurred in Western Canada in July, 1950 at which time a new edition of the Manual was adopted for use in that area. In December, 1950, Pacific Mills raised the prices



containerboard sold in British Columbia and Alberta. Canadian Boxes, Martin Paper, and Hilton raised shipping container prices simultaneously on December 1, adopting at the same time revised Manual pages for conversion costs and a new basis for small order up-charges. The total effect was an increase of about 10 per cent except on small orders on which the increase was greater.

In the period 1950 to 1952 further increases in the prices of containerboard and shipping containers were put into effect, but these did not involve any revision in the Container Statistics Manual. The price changes in this period were made by the adoption of additional mark-ups called "surcharges" on "costs". The first of these increases by surcharge occurred in Ontario and the area east of it in December, 1950. Made in the last few days of 1950, it amounted to 5 per cent and was effective on business written early in 1951. This surcharge was not adopted in Manitoba and Saskatchewan, although at that time .025 linerboard increased in price at Winnipeg. Hilton and Martin raised the prices of shipping containers made from this type of board on January 16, 1951.

In March, 1951, the 5 per cent surcharge was put into effect by Martin Paper and Hilton. Prices in British Columbia and Alberta were also increased in March, 1951 by 5 per cent.

The 5 per cent mark-up was in addition to the existing mark-up of 15 per cent on Manual "costs".

In June, 1951, a second surcharge on "costs" was adopted at the same time as an increase occurred in the prices of board. This of course meant an increase in the price of shipping containers. The shipping container manufacturers throughout Canada increased their prices at this time and except for the two Maritime companies the increase in price was approximately 10 per cent.

In the first three months of 1952, reductions in the prices of shipping containers occurred in Western Canada, forced on the western box companies by competition from imported American shipping containers. In March of 1952 Hilton, Martin Paper, and Canadian Boxes made identical and simultaneous price reductions in Alberta. These identical and simultaneous reductions were the result of communication between the firms prior to the public announcements of the price cuts.

A further round of increases in prices of containerboard and of shipping containers occurred in October and early November, 1953, at which time a revised issue of the Manual was adopted and put into effect throughout Canada. At this time the basis of pricing in the Ontario-Quebec zone was changed from the old Manual "cost" components plus mark-up plus surcharges to the new revised Manual

plus a mark-up of 5 per cent and no surcharges. In the Maritimes, the changes in the mark-up structure were quite radical. Prior to this time there had been a  $12\frac{1}{2}$  per cent mark-up and 13 per cent surcharge. After this price increase the Maritime firms used only one mark-up of 10 per cent. For Newfoundland, where they had previously used a mark-up of 8 per cent plus a surcharge of 13 per cent plus certain freight factors, they eliminated the freight factors and used a single mark-up of  $17\frac{1}{2}$  per cent. Board prices were increased in Saskatchewan and Manitoba at this time but no price increases for board were made in Alberta or British Columbia and there was no Manual revision or other change in shipping container prices for B. C. or Alberta until May, 1954.

The general pattern of events which preceded each one of these general price increases was one of continuing consultation between the firms associated with Container Statistics and Mr. Hayes. Prior to each price increase, Mr. Hayes made proposals for changes in the "costing" of various items, circularized his proposals to the members of the group, received their comments, criticisms and suggestions, revised his proposals, re-circulated the revised material and by this process arrived at proposals which were agreeable to the firms. These proposals were then adopted by the firms and used for "costing". On more than one occasion, meetings of the firms were held to discuss the proposed changes. Throughout the period, with a few minor exceptions noted above, increases in the prices of container-board and of shipping containers occurred at the same time. Board firms usually made their announcements of price increases on slightly different dates, but the evidence shows that so far as the purchase of containerboard by shipping container firms was concerned, variations in the dates of announcement and even in the effective dates for the putting into effect of the price increases were of no account: the shipping container firms were unable to buy at the old price from a firm which had not yet ostensibly put into effect the new increased prices. Another feature of the general pattern was that the board firms often informed their customers by telephone or telegram prior to the mailing of the official announcements of price increases. On occasions on which increases occurred in the price of board, it was customary for Mr. Hayes, after the first announcement of a board increase by a single board firm and without waiting for announcements that the other board firms would also increase their prices to send out to his clients revised material "cost" sheets for the Container Statistics Manual based upon the increased prices for board which had been announced by one firm and which Mr. Hayes must therefore have assumed would be followed by the other firms. The material costs sheets involved a very considerable amount of calculation. Consequently the time required for such calculation indicates that they must have been prepared in advance of the announcement of the board price increase in each case. As their usefulness obviously depended upon uniformity of board prices, their preparation an



distribution in the manner described necessarily presupposed prior agreement on the amount of the price increases for board.

4. Apparent Exceptions to the Container Statistics System.

Special Prices and Discounts

A number of companies associated with Container Statistics or Mr. F. C. Hayes gave confidential discounts from the price levels established under the Container Statistics system. These discounts were distinct and separate from the discounts regularly given by all firms on purchases in one-carload or two-carload quantities and distinct also from freight allowances given by all firms. These special discounts had the effect of making prices to certain customers lower than the prices generally charged by the associated companies.

There were various situations which gave rise to such price concessions. They may be summarized as follows:

- (a) the customer was able and willing to import shipping containers;
- (b) the customer purchased very large quantities of shipping containers;
- (c) the customer owned shares in the shipping container company or held directorships in the container company;
- (d) the shipping container company during the initial stages of its organization, granted a price concession to a customer because the latter promised to be a continuing customer for such a large volume of containers as to constitute in itself a sufficient market to warrant the launching of the container manufacturing enterprise, provided that the container firm could hold all or most of the customer's purchases, the price concession being judged essential to the latter end.

In all cases the discounts or price concessions were made from the prices established by the Container Statistics system. Although some particular companies made substantial proportions of their total sales at discounted prices, the entire volume of business done by all firms at discount prices was only a small proportion of the total sales of shipping containers by all firms in Canada. Generally speaking other firms did not attempt to match or exceed the discounts which some firms customarily gave to particular customers and there was no general tendency for this system of discounts to spread to more than a few particular customers. There does appear to be one exceptional case, that of the subsidiaries of George Weston Limited, in which several firms appear to have attempted to enlarge their shares of the customer's business by competing in granting discounts.

Use of Manuals Other Than the Container Statistics Manual

Several firms used manuals which had not been issued by F.C. Hayes or Container Statistics Limited, the first of these coming into use in 1953.

On November 2, 1953, Hinde & Dauch increased its prices and at that time adopted its own manual. Tables of this manual, with only a few exceptions, were initially photographed from tables in the Container Statistics pricing manual and then modified by the addition of typed strips of paper containing the relevant changes. A comparison of the two manuals and calculation of sample prices from the Hinde & Dauch manual make it clear that in so far as the general run of containers is concerned, the prices calculated through the Hinde & Dauch manual vary by only a few cents per thousand containers from those calculated through the Container Statistics Manual. The evidence of a Hinde & Dauch official was that the use of the Hinde & Dauch manual had not altered the character of Hinde & Dauch's business in any important way.

In June, 1954, Martin Paper terminated its arrangements with Container Statistics Limited and proceeded to use a manual of its devising for the pricing of a portion of its business. This manual was used with a schedule of mark-up percentages varying according to the style and test of container and the resulting prices were different from those which were developed through the use of the Container Statistics Manual and the current mark-up used by the Container Statistics companies. When Martin Paper began to use its own manual, however, it was put into effect on all orders in Alberta, but it appears from the evidence that in Manitoba and Saskatchewan it was used only to calculate prices on orders in which there was some change in printing or in size of stock from what had previously been ordered. It seems that in Manitoba and Saskatchewan Martin Paper continued to use the Container Statistics manual on other orders. On this basis its replacement by the new manual would be a very gradual process.

Pembroke Shook Mills, which was never at any time associated with either Container Statistics or F. C. Hayes, used a ready reckoner manual for the purposes of pricing and in large part this was the same as that of Container Statistics. The material cost tables used by the Container Statistics Manual were not included in Pembroke Shook Mills' manual, the latter's figures for material components being slightly below the C.S.L. figures for single wall boxes and significantly lower for double wall boxes. The conversion and other tables were nearly all as put out by Container Statistics. Pembroke Shook Mills' manual was developed by the company after the employment of a particular sales manager, Mr. J. R. Loney, brought with him a Container Statistics Manual. Pembroke Shook Mills gradually revised and supplemented this manual until 1957, by which time the material cost figures in it were substantially those of Pembroke Shook Mills rather than those in the manual Mr. Loney had brought to the company.

There is nothing to indicate that any of these pricing manuals had any significant effect upon the pricing structure of the industry.

## 5. Restrictions in the Board Market

### Eastern Canada

Certain features of the sales operations of three of the four major board producers in Eastern Canada (Hinde & Dauch, Bathurst, and St. Lawrence) introduced rigidities into the board market and tended to hold constant their respective shares of that market. Similarly the percentages of the total sales of shipping containers by the largest converters tended to be held constant through clauses in contracts for the supply of board or through customary selling and supplying practices. Shipping container firms which were subsidiaries of board mills found it much easier to obtain supplies or increased supplies of board than did some of the independent converters.

Particularly worthy of comment were certain policies and actions of Hinde & Dauch. Wishing to expand its own production of containers and having failed to expand its own production of board, Hinde & Dauch reduced or cut off entirely its sales of board to certain independent converters. The effects of this on independent producers of containers were often adverse: several experienced considerable difficulty in obtaining the board supplies required to maintain their existing levels of production or to expand production. Hinde & Dauch supplemented its action by signing a sales contract with St. Lawrence which gave Hinde & Dauch an increasing supply of kraft board.

Certain clauses of some of these contracts had the double effect of binding the parties to the observance of uniform prices and also of uniform standards of manufacture of board.

Bathurst for some years had supply contracts with five of its principal customers for board which covered about 90 per cent of Bathurst's total shipments of board. These contracts characteristically provided for exclusive supplying of board by Bathurst and all of them provided for sale on consignment. The pricing clauses eliminated the possibility of the customers' acquiring stocks of board at a previously existing lower price at any time at which Bathurst announced a price increase, except to a very minor extent.

Clauses in Bathurst's sales contracts with Wilson and Martin Paper provided that Bathurst would have a constant proportion of those customers' requirements of board. The contract with Wilson also provided that Wilson would have a fixed share of Bathurst's total deliveries of board in the event that Bathurst was obliged to reduce deliveries to all its customers. The contracts with Kraft Containers and Hygrade, in providing that, in the event that Bathurst should fail to allocate proportionately to the buyer and to its other domestic customers having similar contracts, the buyer might buy elsewhere, tended to maintain Hygrade and



Kraft Containers shares of Bathurst's total production. In view of the fact that Bathurst's sales contracts with its five main customers accounted for 90 per cent of its total sales in the period concerned, its contracts with them tended to rigidify its entire sales structure.

The contract between St. Lawrence and Hinde & Dauch empowered the latter to increase very substantially its annual purchases from St. Lawrence, provided that St. Lawrence increased its capacity by a sufficient amount. Under this contract, St. Lawrence's actual shipments to Hinde & Dauch increased by over 100 per cent between 1947 and 1954, a percentage increase which was unmatched by St. Lawrence's sales to any other of its customers. One of the clauses of the contract provided that the Trade Customs of the Canadian Paperboard Industry should govern sales between the two companies. One of the paragraphs effectively prevented St. Lawrence from pursuing an independent pricing policy on shipments under this contract for it provided that prices should be those generally prevailing at the time of delivery with respect to over 50 per cent of the aggregate tonnage of all standard containerboard grade shipped into the market extending from Manitoba to Newfoundland by mill east of Fort William. This, in effect, meant adherence to common price for no one mill held over 50 per cent of the total sales in this area. It necessarily meant identity of kraft and jute board prices as well.

St. Lawrence had been the principal supplier of board to Canadian Wirebound and after the latter was acquired by Bathurst in 1954, St. Lawrence entered into a contract with Bathurst to supply board to Canadian Wirebound in substantially larger amounts than had been delivered before the acquisition. The contract was for the period January 1, 1955 to December 31, 1958 and could be extended from year to year unless terminated on 30 months' prior notice by either party. The contract provided that if Bathurst had to curtail receipts of board from St. Lawrence it would do so in proportion to its reduction of board from other sources, including itself. On the other hand, if St. Lawrence had to curtail shipments of board to Bathurst it would do so proportionally to its reduction of shipments to other customers.

In addition to its contracts St. Lawrence depended upon informal allocations of board production amongst its various customers. These allocations were worked out at the beginning of each year, St. Lawrence customarily accepting orders for a total amount of board which exceeded its capacity. The ostensible reason for its doing so was its experience that the converters did not use up their entire allocations.

The evidence shows that at no time in the period 1947 to 1954 could an independent converter shop around between alternative suppliers of board with any assurance that if he were refused supplies by one board manufacturer he could make up his requirements by applying to another. Those container makers who entered into tightly drawn sales contracts with board producers were able to obtain more adequate and assured

supplies of board than those who did not. In signing such contracts they largely or completely abdicated their right to shop around.

The inadequacy of board supplies in the early 1950's was relieved by the entry or re-entry into the manufacture of board of several smaller suppliers, such as Minas Basin and Strathcona.

A remarkable feature of the kraft board market was the high degree of stability in the shares of St. Lawrence and Bathurst. Over an eighteen-year period extending from 1937 to 1954 these two companies' shipments (including shipments to both domestic and foreign customers) were cumulatively almost exactly equal. The shares varied from year to year, but it is noticeable that a period in which the share of one of the two firms exceeded 50 per cent of the total shipments by both was followed by a period in which its share fell below 50 per cent. Data for the years 1955 to 1960 show that this pattern was continued to the end of 1960.

It is further noted that the Board Section of the Canadian Pulp and Paper Association was an avenue for the exchange of information on containerboard capacity amongst the various board firms. There was in addition a detailed and well-organized statistical interchange among the board producers.

#### Western Canada

The western Canadian market resembled that in Eastern Canada in that until 1954 converters were at no time able to order their supplies of board freely from alternate Canadian sources of supply or to shop around to obtain lower prices. On more than one occasion the provision of board to a container manufacturer in Western Canada was the subject of discussion and negotiation between board manufacturers, and in such cases agreement or co-ordination between two board mills was sometimes a prerequisite to a particular converter's obtaining an additional supply of board from a mill not previously supplying him. The inability of Prairie converters to secure their additional supplies of board from Canadian board mills at times hampered and even prevented the expansion of the production of shipping containers on the Prairies.

#### Prices of Eastern Board in the Prairie Market

During the period 1947 to September, 1950, the price structure for board in the Prairies gave the board mills in Eastern Canada net returns at the mills considerably higher than they were able to obtain from sales in the territories lying much closer to their plants. The western price structure had developed in the pre-war period when the only sales of containerboard to Prairie points



were made into Winnipeg by Hinde & Dauch and Bathurst. The delivered price basis for Winnipeg was higher than the delivered price basis in Ontario and points east in order to compensate for the additional freight. Brompton (later St. Lawrence) brought its Red Rock, Ontario mill into commercial production in 1946. At this time, Brompton set a price in Calgary which was the Winnipeg price plus freight from Winnipeg to Calgary. As the Red Rock mill was so located that the freight costs from there to Winnipeg were lower than the freight costs from Red Rock to Montreal, the net return at the mill on western sales would have been higher than on sales to Montreal even if the Winnipeg price had been the same as the Montreal price. Because the Winnipeg price was in fact 10 per cent higher than the Montreal price in 1947, the mill net at Red Rock on western sales was even further out of line.

From the fall of 1947 until June, 1949 Martin Paper attempted to persuade St. Lawrence to reduce its pricing basis in Winnipeg and Calgary in such a way that the prices in these two cities would equal the Red Rock mill net which St. Lawrence received on its sales in Eastern Canada plus the actual freight on board from Red Rock to Winnipeg or Calgary. A slight adjustment in Calgary prices was made at the time of the price change of October, 1948, but otherwise the price structure remained as it was. There is evidence that Bathurst and St. Lawrence consulted each other on the maintenance of this price structure and that Bathurst felt unable to consider any downward revision. In September, 1950, however, St. Lawrence brought its Winnipeg prices into line so that its mill nets on western shipments were the same as those on shipments to the Eastern Provinces. St. Lawrence continued to supply the western markets on this revised price basis, but at this time Bathurst ceased shipping to the Prairies except for one grade of liner not manufactured by the Red Rock mill.

Similarly for a considerable period the prices at which Pacific Mills sold board to Martin Paper's factory in Calgary were set at levels which exceeded Pacific Mills' prices to its subsidiary, Canadian Boxes, by more than the freight charges on board from Vancouver to Calgary. Prices charged in Calgary to Martin Paper by Pacific Mills were equal to its Vancouver prices on board plus freight costs of shipping containers from Vancouver to Calgary. Canadian Boxes was, of course, a supplier of boxes to the Alberta market and therefore a competitor of Martin Paper in that market. Martin Paper made efforts over a three-year period to have this situation rectified. When, in October, 1953, board and box prices were increased for the rest of Canada all mills left their Alberta board prices unchanged.

## 6. Attitudes Toward Product Innovation

### The Pricing of "B" Flutes

The combined board from which shipping containers are made consists of one or more linerboards and corrugating medium, the latter being fluted with more or less undulations per foot and attached by means of adhesive to the linerboard or linerboards. The fluting may be of three types known respectively as "A", "B" and "C" flutes. This report is concerned with the first two only.

The square footage of corrugating medium required per square foot of linerboard is significantly higher for "A" flute than for "B" flute. Furthermore, the use of "B" flute partitions permits the dimensions of the shipping container into which they are to be fitted to be slightly smaller.

"B" flute partitions were not supplied regularly in Canada prior to 1948, but only when a customer specifically asked for them. In that period the Container Statistics Manual had no separate tables for the pricing of "B" flutes. When a customer specified "B" flutes they were priced on the basis of Manual tables for the more expensive "A" flutes. Tables for the pricing of "B" flutes did not appear in the Manual before late 1950.

Certain firms were opposed to the introduction of "B" flutes and to the provision of separate pricing tables for them in the Manual. This opposition was based on the fear that if "B" flutes were not penalized by being sold on the basis of "A" flute pricing, they would drive out the "A" flutes to a considerable extent. Hinde & Dauch, which was not prepared to manufacture "B" flutes, would have been vulnerable to price competition if "B" flute partitions had become common.

### Changes in Specifications of Board

Containerboard, as explained earlier, may be manufactured either from kraft pulp or from waste paper, the board made from the latter raw material being known as jute board. Kraft board is stronger than jute board. Board of any given caliper (thickness) made from jute is characteristically heavier than board of the same caliper made from kraft. This fact has several important implications. One is that jute board, which has to compete in price with kraft board on a square footage basis, must be lower in price per ton than the kraft board. A second implication is that a given square footage of jute board is more costly to ship because of its greater weight. Because of the superiority of kraft board, it displaced jute board rapidly in the United States, but although this process of replacement took place in Canada it was slowed down considerably in comparison with the substitution which took place in the United States.

During the period with which we are concerned, specification of board used in the United States were on the basis of poundage per thousand square feet, no reference being made to the caliper of the board. Board used for the manufacture of shipping cases in the United States when manufactured into shipping cases, has to meet certain tests of strength called Mullen tests. During the period from 1947 up until 1954, the Trade Customs of the Canadian Paperboard Industry laid down specifications for containerboard on the basis of caliper rather than of weight. The effect of this was to make it much easier for jute board to meet the competition of kraft board.

In the United States the standard specifications of board in force in the post-war period, set forth in 1944, involved a reduction in the weight of board required for specified containers. This change had been introduced to economize materials during the wartime emergency.

Prior to 1954 Canadian manufacturers made containerboard in a restricted number of calipers. The Canadian shipping containers manufactured from this board were not only below the specifications required in the United States but also below the Canadian railways' specifications which had been embodied in Rule 1 of the Canadian Freight Classification and had remained unchanged for many years. In 1946 the Canadian specifications were revised by Informal Ruling A-1. The specifications of Informal Ruling A-1 were related to caliper only. The cartons manufactured in Canada were below the standards set by Canadian Freight Association Informal Ruling A-1 for the minimum combined calipers of the liners in three out of five instances and in other respects as well. Actual manufacturing specifications of nine types of Canadian container as to combined weight of the liners were below the standards set by Rule 41 of the U.S. Consolidated Freight Classification in five out of the nine instances, and above in four. They were substantially above for the 65-pound box. The 65-pound box was by far the most important single box both before and after the changes of the years 1952 to 1955, although its importance declined during those years.

During the period of price control in Canada orders and rulings of the Wartime Prices and Trade Board administered by the Administrator of Paperboard provided that the paperboard machines in Canada had to be operated according to the directions of the Administrator. Under this regime the number of calipers and colours of board manufactured were restricted. While wartime emergency continued Informal Ruling A-1 was inoperative. The suspension of control in December 1947, however, opened the way for the application of Informal Ruling A-1 or for any revision of it which the Canadian Freight Association might wish to place before the Board of Transport Commissions for Canada.

On December 10, 1947, the Chairman of the Canadian Freight Association wrote the manufacturers of shipping containers advising them of the Committee's proposal to revise Rule 1 dealing with the specification of fiberboard shipping containers and urging consultation among the container firms with a view to making submissions on this matter to the



Canadian Freight Association's Classification Committee. Then began a series of consultations between the board manufacturers and the shipping container manufacturers on the one hand, and the C.F.A.'s Classification Committee on the other, which lasted intermittently for seven years. What the Canadian Freight Association wished to see was the introduction of the American specifications. The Canadian board and shipping container manufacturers, broadly speaking, opposed the introduction of the American specifications, although there were differences of opinion among them.

The adoption of the American specifications would have necessitated the manufacture in Canada of five rather than just three calipers of containerboard and would have saved the container manufacturer money (because a smaller weight of board would have been required per 1,000 square feet of board) on both raw material and freight. It would also have permitted container manufacturers to make containers conforming more closely to the specific needs of their customers, enabling the latter to secure an optimum balance of quality and cost. The adoption of the American standards would, however, have brought severe competitive pressure to bear upon the manufacturers of jute board and for this reason they opposed the proposed change. Over a period of time however, the kraft manufacturers came to favour the introduction of the American specifications.

For some time the official submissions of the board and shipping container manufacturers (in the formulation of which Mr. F. C. Hayes played an important role) were to the effect that they did not wish to see the American specifications adopted. As time went on however, the divergence of interests between the kraft and jute manufacturers resulted finally in separate representations to the Canadian Freight Association by Bathurst, one of the kraft producers.

The Canadian Freight Classification Committee submitted its proposed revisions to the Board of Transport Commissioners in 1954 and when the latter body approved their recommendations, they became effective on March 1, 1955. The Canadian Freight Classification No. 20 included the new Rule 41 which coincided with the specifications of the United States Consolidated Freight Classification as promulgated in 1944. Thus the views of Bathurst prevailed over those of the majority of the firms in the shipping container industry. The adoption of the American specifications resulted in the manufacture in Canada of six calipers of board as compared with the previous three.

The restricted number of calipers of board manufactured in Canada in the earlier part of this period and the specifications of these boards and of the boxes manufactured of them, had certain particular

results. The Canadian 65-pound box was much above minimum strength while several of the remaining types of box were below strength. This was a factor in concentrating demand and production on the 65-pound box. The relative importance of the 65-pound box declined in 1952 after the introduction of the  $37\frac{1}{2}$ -pound liner and declined further after the other grades of box came to be made to the higher standards adopted by the Canadian Freight Association in 1955, but it still continued to be much more important than any other grade of box.

It has been mentioned that during the discussions among the board and shipping container manufacturers with regard to these proposed changes a split had occurred between the kraft and jute producers and it was mentioned that Bathurst had finally made independent representations to the Canadian Freight Association. One of the reasons for Bathurst's favouring the proposed change was its awareness of the possibility of competition from the lighter American board and the boxes made from it. Pacific Mills also was aware that it would be subject to import competition and its view consequently evolved in a direction similar to that of Bathurst. Although the revised specifications did not come into effect until 1955, Pacific Mills was studying the production problems involved in producing a wider range of board as early as 1952. Bathurst had begun the production of a semi-chemical corrugating medium (termed Bathurst Corrugating Medium) in December, 1950. Bathurst decided either late in 1950 or early in 1951 to offer a 26-pound liner to the trade and early in 1952 began to manufacture a  $37\frac{1}{2}$ -pound liner.

#### 7. Survey of Industry Practices in 1959

In 1959 the Director initiated a survey to discover any current practices of the shipping container industry similar to those which he had found to be characteristic of the period 1947 to 1954. He found that in June 1959 only five formal tripartite contracts among individual shipping container manufacturers and Container Statistics and F. C. Hayes remained in effect in Eastern Canada, but ten firms paid fees either to Container Statistics or to F. C. Hayes in 1958 or 1959. It appears that F. C. Hayes had done certain work in connection with pricing manuals or revisions to them during the period 1954 to 1959 and that he had from time to time prepared lists of manual "costs" or selling prices for corrugated single-faced rolls, canners cartons and beer cartons. Pricing manuals were still used by the eastern companies in 1959 and with the exception of those used by two companies were virtually identical. Special price lists in circulation and use showed a very substantial degree of uniformity. The statistical collection and reporting system formerly operated by Container Statistics had been reinstituted outside Container Statistics operations and its coverage had been expanded in respect of the eastern companies. The western companies and western branches of eastern companies did not participate in this in 1959. This statistical interchange was undertaken by the firm of Field, Darch and Company.



There were no longer any standard manuals in use in Western Canada. Commodity price lists were extensively used for pricing containers in British Columbia, this practice having been begun by Crown Zellerbach about the end of 1955. Special price lists containing identical specifications and prices had been published by Crown Zellerbach and Martin Paper and were in effect for a number of products. Identical prices had also been issued by Crown Zellerbach and Martin Paper for certain beer cartons in Alberta and Saskatchewan and for single-faced rolls in all markets. American competition in the British Columbia market, at the time of the Director's 1959 survey, was having a depressing effect upon the British Columbia price level for shipping containers, which were then being sold in British Columbia at prices below those in Ontario and Quebec.

## CHAPTER XIII

### APPRAISAL OF THE EVIDENCE IN PART I

#### 1. Conclusions as to Arrangements

The period to which the Director's allegations relate begins with the year 1947. In that year Mr. F. C. Hayes incorporated and organized Container Statistics Limited. It is clear from correspondence and other documentary evidence, as well as from oral testimony, that the convictions and penalties imposed upon most of the manufacturers of paperboard and corrugated shipping containers in the prosecutions of 1940 to 1942 were matters of serious concern to officials of companies approached by Mr. Hayes. What they desired and what Mr. Hayes endeavoured to establish through the medium of Container Statistics was a basis for co-operation that would not again render the participants liable to prosecution under the Combines Investigation Act or the corresponding provisions of the Criminal Code. They intended that the arrangements entered into would be within the law. One of the principal tasks of the Commission is to determine whether or not they succeeded in that intention.

In the first place the absence of any overall written agreement between the companies or between the companies and Container Statistics or Mr. Hayes is not of great significance. Whether a company entered into a written contract with Container Statistics or Mr. Hayes for the Container Statistics Manual and other services, as many of them did, or merely purchased the Manual or other services or both, as others of them did, its relationship to Mr. Hayes and the manner in which it used the Manual seem to have been essentially the same.

The evidence is overwhelming that the companies normally used the Manual in the process of working out the prices to be charged for containers. It was very strongly contended that the Manual had nothing to do with prices, but was intended to provide the companies with closely accurate figures for the costs they would incur in making the various types, sizes and quantities of boxes, each company being completely free to add to the total of costs whatever percentage it might desire by way of profit. This was certainly the formal position, and there are many documents in evidence in which Mr. Hayes discussed costs as dealt with in the Manual and spoke of the company as "adding its own individual mark-up". Many of the company officials who gave evidence also insisted that Mr. Hayes dealt only with costs and had no interest in mark-ups or prices.

The Commission has come to the conclusion that the argument and evidence just referred to do not describe the true purpose of the Manual. Certain aspects of the evidence in the inquiry have led the Commission to conclude that the Manual was, in fact, intended for use in pricing shipping containers. Much of the evidence which has led the Commission to this view may be summarized as follows:

- (a) Administrator's Manuals "A" and "B" were pricing manuals.
- (b) What we have called Industry's Manual "B", and later, the Container Statistics Manual were based on Administrator's Manual "B" but with the mark-up item eliminated.
- (c) In each of the regions for which a different edition of the Container Statistics Manual was issued, the companies associated with Container Statistics habitually used the Manual to arrive at their total "costs" and habitually added the same mark-up to that total. When a change occurred in the mark-up in one region it was adopted by all companies operating in that region.
- (d) Many of the "cost" elements in the Manual were arbitrary in character, and thus not truly representative of actual costs in the industry.
- (e) The standard lists for canners' cartons and brewery cartons, which had been lists of Manual "costs" until the Fall of 1953, became price lists after that date, this being attested to by Mr. Hayes himself.
- (f) The standard lists for corrugated single-faced rolls, which could not be "costed" by the Manual system, were price lists.
- (g) On two occasions when the cost of materials had increased and also some of the conversion costs, there was no real computation of the actual increase in the various elements of Manual "costs", the matter being handled by a flat percentage increase over the total of Manual "costs", five per cent in one instance and ten per cent in the other.
- (h) On occasion Mr. Hayes communicated the prices of one firm to another, without talking about costs or cost components.

Other evidence, e.g., Mr. Hayes's activities in connection with mark-ups and freight rates, confirmed the impression made on the Commission by the foregoing. The Commission has, therefore, come to the conclusion that the Container Statistics Manual, though listing only "costs" and on its face having nothing to do with mark-up or price, was in effect a price manual, with one element of the price, viz: the

mark-up over "cost", omitted. Since in each region the companies associated with Container Statistics habitually applied the same mark-up to their "cost" as derived through the Manual, the omission had no effect on the price.

It was contended on behalf of the companies that the steps taken by Mr. Hayes when changes were proposed in the Manual "cost" structure were taken in an effort to ascertain what changes in actual costs had occurred and to have these changes reflected in the Manual tables. It will be remembered that Mr. Hayes's practice at first was to ask a number of companies to submit their actual calculated costs. Later the cost figures of only one or two companies, particularly Bathurst and Hinde & Dauch, were obtained. From these Mr. Hayes worked out suggestions for altering the Manual tables which were circulated to the companies for consideration, criticisms and suggestion. After receiving replies Mr. Hayes revised his proposals and again submitted them to the companies. Sometimes meetings of company representatives were held. In the end new "cost" tables were worked out by these steps, which by their nature inevitably involved compromise between differing views.

This process may certainly be interpreted as one designed and followed for the purpose of ascertaining as accurately as possible what changes had occurred in real costs and having those changes incorporated in the Manual. It may also be interpreted, however, as designed to ascertain what changes the companies were willing to agree to and felt they could adopt whether or not they were a true reflection of changes in their actual costs. Taken in conjunction with the uniform mark-up in each territorial region the result certainly was to assist in the maintenance of uniform prices.

The evidence set out in earlier chapters of this report and summarized in the first part of this chapter does not, in our opinion, indicate that uniformity in prices or in price changes of either paperboard or shipping containers can be attributed simply to price leadership. If we look at the first price change after decontrol, that of October 1947, before the adoption of the Container Statistics "costing" system, we find contemporary written evidence of an industry meeting immediately preceding the increases in board and container prices. This evidence indicates specifically that a meeting was to be held on September 30, 1947 at the Royal York Hotel in Toronto, that it was in fact held and that a decision to increase prices had been made, the percentage to be determined later. It is true that the evidence as to who attended the meeting is far from complete and that many company officials who were examined denied all knowledge of it. Their oral evidence was given many years after the event, and the Commission finds that the meeting was held, that it was attended by representatives of some container manufacturers,



that prices were discussed and that some understanding was reached that prices would be increased.

The adoption of the Container Statistics Manual in Western Canada in July, 1948 and in Eastern Canada in October of that year was preceded, in each of these areas, by correspondence, memoranda and discussions between company representatives and between Mr. Hayes and company representatives, which indicate a desire to act together in each area in adopting the new "costing" system and the prices resulting therefrom.

Subsequent changes in the price level of shipping containers, whether resulting from "surcharges" on Manual "costs", from the issue of new material "cost" sheets or new conversion "cost" sheets for the Manual, from a change in the regional mark-up on Manual "costs", or from the adoption of uniform small order upcharges, further indicate by the manner in which they were brought about, a desire and intention for uniformity of action.

The evidence concerning "Standard Lists" and the standardization of manufacturing tolerances, concerning Mr. Hayes's activities in relation to freight charges and allowances and concerning his activities in relation to mark-ups, all points in the same direction.

It will be recalled that Gair and Hinde & Dauch were integrated board and container manufacturers, Canadian Boxes had become a subsidiary of Pacific Mills in 1945, and before the period with which this inquiry is concerned Bathurst had acquired two container companies, Shipping Containers and Kraft Containers. Board companies thus owned container companies making a large percentage of all the containers made in Canada. By 1947 Brompton was the only major board company that did not also own a container plant.

It is therefore not surprising to find that there was a fairly close relationship between the paperboard manufacturing companies and Mr. Hayes's organization. For example we see that Bathurst was quite active during the organizing period of Container Statistics. Another example of this relationship is seen in connection with the issue of a new Manual in August, 1950. The evidence clearly indicates that this manual could not have been prepared by that date unless Mr. Hayes knew in advance that the board companies intended to announce a price increase and what the amount of the increase would be. Further, since it was issued to Mr. Hayes's clients at a time when only one board company had announced the increase he must have been reasonably certain that the others would follow. The Commission considers that unless he had reasonable assurance that they would do so he would not have undertaken the considerable volume of work required for the compilation of a new Manual, nor would he have sent it to his clients on the date when he did so.



The evidence relating to this increase in board prices also indicates that Bathurst knew in advance exactly what increases Hinde & Dauch and Gair intended to announce.

The evidence concerning the board price increase in October, 1953 clearly shows that Mr. Hayes knew about it some two weeks in advance. This information could only have come from a board company.

Other examples of evidence showing co-operation between board companies include the following:

- (a) The letter (Serials 21950-51 WBF) dated September 13, 1948 written by Mr. Roderick of Wilson, in which he stated:

" . . . the writer sat in with the paper people at Toronto and Montreal last week, and they definitely decided that the price was to advance 10%, but they have not agreed on a date to put this advance into effect. . . ."

The ten per cent advance actually took place early in October.

- (b) The booklet called "Trade Customs of the Paperboard Industry in Canada", revised by the Board Section of the Canadian Pulp and Paper Association, in 1946. As at that time, the industry was still under strict wartime controls it was not in a position to "revise" standard conditions of sale and terms of delivery, standard grades of paperboard, calipers and colours, or the basis of claims, manufacturing tolerances and standard tests of quality. In the Commission's opinion this booklet must have been prepared for use after decontrol. While these trade customs were apparently not binding on the board companies, it appears from the evidence of Mr. Cockerill of Bathurst and Mr. Godden of Brompton that in practice they were observed. The use of such standards, coupled with price uniformity, would tend to eliminate competition by way of better quality for the same grade of board.
- (c) The statistical interchange between board companies.

From the foregoing examples and others contained in the evidence the Commission is satisfied that the board companies were co-operating with each other and with Mr. Hayes and Container Statistics to make the Container Statistics arrangements effective.

Counsel argued before the Commission that the fact that increases in board prices and in container prices were not announced by the several companies on the same day, but that the announcements were commonly spread over several days or even several weeks,

disproved the existence of any agreement or understanding among the board companies or among the container companies to make identical price increases. In the face of all the evidence before us of co-operation between the companies and of the purpose of the Manual, the Commission is unable to agree with this argument. Further, in so far as the board companies are concerned it seems clear that following a price increase announcement by one company, container companies were not permitted to stock up by placing orders with other board companies which had not yet announced a price increase. For practical purposes the result was much the same as if the price increases had been made at the same time. In so far as the container companies are concerned, whatever may have been the reasons for price increase announcements being spread over some days or weeks, the fact remains that very shortly after receiving new "cost" sheets from Mr. Hayes the companies in each region adopted the new "costs" and by adding the regional mark-up arrived at identical higher prices. The Container Statistics' "cost" sheets were the means, together with the regional mark-up, by which this result was achieved. In the Commission's opinion the only admissible conclusion is that uniform prices brought about in this way cannot be attributed to price leadership or competitive forces in the market, but only to agreements or arrangements designed for that purpose.

The evidence concerning special prices and discounts and concerning other manuals adopted by two or three companies, the first of these being in 1953, does not alter the general conclusions reached by the Commission. It might be anticipated that the use by some companies of their own pricing manuals and the severance by one company of its arrangements with Container Statistics would lead to some degree of breakdown in the industry arrangements. However, the evidence does not disclose that any significant development of this nature had occurred at the date of the hearing before the Commission.

The granting by certain companies of special discounts to particular customers affected only a small percentage of the total sales by the industry, but some of the customers were large buyers, and for some companies these discounts applied to a substantial portion of their sales. The practice does not appear to have led to much retaliation by way of price competition, except in the case of George Weston and its subsidiaries, where Hendershot's special concessions led to definite price competition by Hinde & Dauch and Hygrade.

The position of Hendershot calls for special comment. Hendershot's business was affected by special discounts to a much greater extent than that of any other company. Exact figures are not available, but it seems clear that in the years 1948 to 1954, more than half and sometimes as much as two thirds of this company's sales were subject to such discounts. It further appears that over the years Hendershot varied from time to time the special discounts given and granted discounts to customers not previously receiving them. These facts lead the Commission

to conclude that Hendershot acted in a pretty independent manner in respect of special discounts. In all other matters, except that from October, 1948 to September, 1950 the company's prices for single-faced corrugated rolls were lower than those contained in the standard lists put out by Container Statistics, Hendershot appears to have acted in conformity with the Container Statistics system.

The Director laid a good deal of stress on certain restrictive influences in the board market. Not all of these appear to have arisen out of any agreement between board companies. For example there is no evidence that the exclusive supply and similar provisions in the contracts of several major board companies with their customers, which made difficulties for certain container companies in getting adequate supplies, were connected with any agreement between board companies. The difficulty in obtaining supplies was due mainly to the almost continuous shortage of board from 1947 to 1954. Under such a condition these contracts obviously put container companies that were not parties to them at a disadvantage.

On the other hand the maintenance of prices of eastern board in the Prairie Provinces from 1946 to 1950, and of the prices charged by Pacific Mills to Martin Paper in Calgary prior to 1953 appear to have been due to or at least made possible by the pricing structure established in earlier years and continued under the Container Statistics arrangements. The level of board prices on the prairies had been set in relation to the freight rates from the eastern mills in Bathurst, N.B. and East Angus, Quebec. That level was maintained in the years 1946 to 1950 by Brompton's failure to take advantage of the lower freight rates from its new mill at Red Rock in northwestern Ontario. From the evidence, it seems clear that its freight advantage would have enabled Brompton to take over the whole prairie market at that time, except perhaps for Alberta. Instead, Brompton maintained its Winnipeg prices and shipped very substantial quantities of board to the Ontario-Quebec area, realizing thereon lower mill nets than on its sales to Winnipeg and Calgary.

The Director contended that two of the major board companies, Bathurst and Brompton, had agreed or arranged that their sales of board would be approximately equal. The documentary evidence obtained by the Director clearly shows that for the 18 year period from 1937 to 1954 inclusive the average annual sales of these two companies were almost exactly equal. The returns made by the companies to the Commission show a similar situation for the years 1955 to 1960. In view of the rapid growth of the industry since the end of World War II, with new plants being constructed, new companies entering the field, and improvements in technology, this equality is certainly remarkable. It must be noted, however, that in some years there were wide variation in the sales of the two companies.



The documentary evidence which forms the basis for the Director's contention may be summarized as follows:

1. Intra-company teletypes between Mr. W. H. Palm and Mr. P. H. Scowen of Brompton, on December 4 and 5, 1944. These documents indicate Brompton's desire for a 50-50 split with Bathurst in both domestic and export business, as an ultimate aim, and in two places refer to a prospective meeting with Mr. Cockerill of Bathurst to discuss market division. There is, however, no evidence that the meeting was ever held, and all the witnesses who gave oral evidence (Mr. Palm, Mr. R. L. Weldon and Mr. Cockerill) denied emphatically that any agreement to share the market had ever been made. Further at this time the industry was under wartime control and the companies were required to allocate their production as directed by the administrator.
2. An intra-company memorandum on November 21, 1947, from Mr. Cockerill of Bathurst to the company's president, giving a suggested distribution of Bathurst's sales for 1948, both domestic and export. The document suggests domestic sales of 77,930 tons and exports of 5,400 tons. It mentions information from Mr. Godden that Brompton were planning for exports of 11,000 tons and says this would leave 79,000 tons for the domestic market. There is no suggestion in the document of any arrangement between Bathurst and Brompton.
3. In addition there were discussions between Bathurst and Brompton in 1949 which included a proposal that Brompton increase sales to Martin Paper and reduce them to Corrugated Paper Box, Bathurst to do the opposite. Nothing came of this proposal.

After careful consideration of all the facts the Commission has reached the conclusion the evidence does not prove that the remarkably equal sales of Bathurst and Brompton over so many years resulted from an agreement or arrangement between them to achieve that end. We have, however, come to the conclusion that the conditions as to the supply of containerboard and the relationship between board mills and container plants would assist in maintaining the relative positions of suppliers of board as well as of manufacturers of containers.

What were the effects of the arrangements and practices followed by the board companies, by Mr. Hayes and the companies associated with him and Container Statistics?

In the first place price competition between the board companies and between the container companies was largely eliminated. Prices of board and prices of containers were raised uniformly and almost

simultaneously. While the period with which the inquiry is concerned has been one of generally rising costs and therefore one in which prices would be expected to rise, it is scarcely conceivable that left to the competitive influences of the market place they would have risen uniformly at the dates and in the amounts that did occur. The whole record indicates that prices of containers, arrived at as they were under the Container Statistics system, would have to be prices acceptable to all companies, including the less efficient of them. They were therefore likely to be higher than would be the case under more competitive conditions. It is, of course, impossible to say what the level of prices would have been in the absence of the Container Statistics system. However, what might have been anticipated under circumstances in which price competition was not largely stifled is perhaps indicated by the evidence that American competition forced a reduction in prices in British Columbia in 1952 and that in 1959 this competition had forced prices down to a level below that prevailing in Ontario and Quebec. The evidence contains further examples in which public detriment is clearly seen. Thus the arbitrary manufacturing tolerances used in computing area tables meant some increase in prices over what should have obtained, in cases where lesser tolerances were in fact specified by the customer. On a large order the difference was admittedly significant. Again, the delay in providing through the Manual tables for B flute corrugating material, which meant that the cheaper B flute material was priced on the basis of the more expensive A flute, and the long delay in adopting revised specifications for freight classification purposes meant in each case higher prices to the customer for some types of boxes. More important is the evidence that when the Container Statistics Manual was put into operation in Western Canada, not only was its immediate effect to raise prices, (as was also the case when it was adopted in Eastern Canada), but it also put an end to price competition which had recently been very active.

In the matter of Okanagan Packaging Ltd. described earlier in this report the Director had found there had been no breach of the law. The Commission therefore has no allegations to consider in this connection. The facts have been set forth in some detail herein because they illustrate the effect of competition from the United States upon Canadian prices, particularly when there is an independent Canadian company that is prepared to import American products which possess any price advantage over similar Canadian products. It is clear that British Columbia fruit packing companies benefitted pricewise in respect of cartons for their export business by reason of the competition afforded by Okanagan Packaging Ltd.'s being prepared to bring in American products at prices lower than those then being quoted by Canadian companies.



## 2. Relationship to Sections 19(1a) and 32(2) of the Combines Investigation Act

It appears to the Commission, from proceedings taken under Section 18 of the above Act that an agreement or arrangement has existed in both the containerboard and the shipping container levels of this industry. The Commission as required by Section 19(1a) finds that this agreement or arrangement does not relate only to one or more of the matters specified in subsection (2) of Section 32.

We pass now from appraisal based upon the law to a more general economic examination of the effects, actual or likely, of the industry arrangements described in this report.

## 3. Demand for Canadian Containers

The demand for Canadian corrugated shipping containers, that is the total demand for the total production of Canadian containers, is highly inelastic at prices below the landed prices of U.S. imports. At that price and above it the demand for Canadian shipping containers becomes much more elastic because the imported containers are good, if not perfect substitutes for the Canadian products.

In total the Canadian demand for shipping containers, except for business cycle fluctuations, will continue to grow as the Canadian economy grows and expands. As there is in prospect no product which is likely to become a close substitute for corrugated containerboard cartons, the future of the shipping container industry appears to be singularly free from major risks.

The elasticity of demand for Canadian shipping containers is not, however, uniform throughout the whole of the country. It varies with the distance of the carton user from American shipping container plants: close to the border the elasticity of demand for Canadian shipping containers is higher than it is for firms which are located a considerable distance north of the border. This is true, at least, for large users who are capable of using imported shipping containers in carload lots. This fact is reflected in the lower prices which several firms have felt obliged to make available to such large users. It appears also that size of the user's requirements itself is a factor having a bearing on the elasticity of demand. Many of the firms that received price concessions from the container manufacturers were firms of considerable size that used large quantities of shipping containers. Thus, distance from the American border and size of the firm's purchases are factors which affect the elasticity of demand for corrugated cartons.

While the total demand for shipping containers is highly inelastic the demand for the cartons of a particular manufacturer will be affected by a relatively small difference in price in view of the standardized nature of the product. Thus there is a strong incentive for container manufacturers to find a system of pricing which will reduce as far as possible the development of any differences in prices which would lead to a shift of business arising out of more favourable purchase terms being available to a user from one supplier than from another. The fact that there are no effective substitutes for containerboard cartons to which users could turn when faced with uniformity of price on the part of container manufacturers meant that there was no competition from outside the industry which would endanger an arrangement as to prices.

#### 4. Supply of Shipping Containers

The evidence suggests that the supply of shipping containers is relatively inelastic also. The chief factor in the expansion of supply over time has been the availability of containerboard, and this has been allocated and controlled to a very large extent so that production cannot respond readily to changes in market conditions through increased output of existing producers or the entry of new producers. Restrictions in board supply acted at times to hamper the expansion plans of some of the independent firms.

#### 5. Market Structure, Protection, and Price

The Canadian producer of shipping containers is protected by the Canadian customs duties on imported cartons. There is also an element of protection in freight rates on containers shipped from points in the United States to Canadian consuming points. Freight rates on shipping containers, which are bulky even in an unassembled form, will have an increasingly protective effect the farther the customers are from American shipping container plants. The evidence suggests that the tariff protection of the Canadian industry is weakest in British Columbia but that at times American competition has been effective also in the Prairie Provinces, particularly in Alberta. The evidence also shows that under special conditions imports of American cartons into Newfoundland did occur. But even in Ontario and Quebec the potential threat of American imports played a restraining role, for occasional bits of evidence show that certain of the moves of Bathurst, particularly those indicating its attitude toward the revision of the Canadian Association rules in respect of specifications of board and boxes, were made with a view to the possibility of import competition.

Landed prices set ceilings above which Canadian prices do not go, at least as far as shipments in carload lots to large consumers

are concerned. Potential import competition is therefore more effective in relation to large users, able to consume carload lots, and less effective with regard to small consumers using cartons in less than carload lots.

The Canadian market for shipping containers really is not one market but four, viz: British Columbia, the Prairie Provinces, Ontario-Quebec, and the Maritimes (including Newfoundland). Each of these markets is oligopolistic in character, being characterized by the presence of many buyers and only a few producers.

Although in each market area there is some competition from producers in other market areas, its extent is difficult to define exactly because of the limitations of the statistical material available to the Commission. The product is characterized by some product differentiation, to the extent that cartons may be made either of jute or kraft board, and to the extent that they may incorporate different types of corrugating medium, but the extent of product differentiation has been minimized by agreement on the calipers and qualities of the board and by agreements on pricing and manufacturing tolerances for pricing purposes. The pricing arrangements of the shipping container manufacturers tend to push prices up against the ceilings set by imports.

In the absence of arrangements among manufacturers on prices and with effective competition among suppliers prices would be lower although, in view of the limited number of manufacturers in most areas the level would probably not be as low as in a fully competitive market.

#### 6. The Containerboard Market

The demand for containerboard, being derived from that for shipping containers, which is in itself inelastic, is similarly inelastic. Product competition has been minimized by the industry's trade customs, by uniformity of prices on the various grades of board, by exclusive supply contracts, long-continued supply arrangements and by the general overall shortage of board which persisted during a large part of the period - perhaps up to 1954. Owing to the exclusive supply contracts and general rigidity of the organization of this market, it seems likely that the demand for the individual board producer's product is also highly inelastic.

There are some indications in the evidence of the possible production of some types of containerboard by paper makers outside the group engaged in supplying the needs of container manufacturers. Apart from the mills which actually became suppliers during the period covered by the inquiry the evidence does not show any other potential suppliers on a substantial scale.



After 1952 Bathurst introduced its semi-chemical corrugating medium and during the period under review Abitibi began to sell increasing quantities of a similar type of board in the domestic market. The appearance of this alternative type of corrugating medium would be expected to have had the effect of making demand for the kraft and jute corrugating medium much more elastic than it formerly had been, but this conclusion must be qualified in view of the extent of the market which was affected by contractual and other arrangements between mills and container plants. The manufacture of a greater number of weights of board from 1952 onwards, but particularly after revision of the Canadian Freight Classification in 1954, must have resulted in making the demand for each type of linerboard more elastic than it had previously been, while leaving the demand for linerboard as a whole relatively inelastic.

Again, the Canadian market for containerboard really consists of four markets, one in British Columbia, one in the Prairie Provinces, one in Ontario-Quebec, and one in the provinces east of Quebec. The record shows that in the Prairies, the Maritimes, and in British Columbia the number of suppliers has been very small with at times as few as two firms making over three-quarters of the total sales. In the central region the number of board makers, originally five separate firms (including Acme), is now larger, due to the entry or re-entry of Abitibi, Dryden, Strathcona and Anglo-Canadian. Of these, Acme is very small, and uses virtually all, if not all, of its own production of board in its own converting operations. The restricted number of sources of supply of board to independent converters is emphasized by the fact that Hinde & Dauch, Bathurst, Gair and C.I.P. use in their own converting operations (their own or their subsidiaries<sup>9</sup>) substantial proportions of their total production of board. Furthermore, in the period when Hinde & Dauch was independent of St. Lawrence, the latter tied up an increasing percentage of its supply of board in sales to Hinde & Dauch. Integration of these two firms now reduces the number of independent suppliers still further. Control of Dryden was acquired in 1953 by Anglo-Canadian Pulp and Paper Mills Limited. Prior to 1953 and subsequently one or more directors of Dryden or Anglo-Canadian also sat on the Board of Bathurst thus providing a link between the organizations. In the Maritimes, Minas Basin appeared as a new entrant into the board industry during this period, but independent action on its part is not to be expected because Bathurst and Minas Basin jointly own substantial interests in Maritime, which fact makes it likely that price and product competition between the two owners would not arise.

Whatever competition might have existed between board firms was greatly reduced by exclusive dealing contracts, informal allocations by particular firms, and on some occasions discussions between individual board firms of the details of supply to particular

converters. The narrowness of the board market was further increased as Hinde & Dauch progressively withdrew supplies of board from its independent customers for the purpose of expanding its own conversion operations.

Again, the maintenance of uniform prices effectively removed practically all elements of price competition from the board market as long as those prices remained at or below the ceiling imposed by the landed prices of American imports.

There is no doubt that the co-operation between board and carton producers slowed down the substitution of the lighter and stronger kraft board for jute board. Although the action of Hinde & Dauch in getting increasing supplies of kraft board from St. Lawrence had undoubted restrictive effects, which have been pointed out elsewhere in this report, the action did have this constructive aspect, that it meant that an increasing proportion of Hinde & Dauch's output of shipping containers would be made of the more efficient type of board.

Bathurst and Abitibi were responsible for most of the progress in the types of board available in Eastern Canada. Both introduced semi-chemical corrugating medium and promoted its use in competition with other types of corrugating medium. American competition, or potential competition, was probably a factor in influencing Bathurst in this regard. The documentary evidence shows that Bathurst's general attitude towards the revision of the Canadian Freight Classification was influenced in part by the consideration that competition might be felt from the United States. It is reasonable to suppose that a similar factor was at work with regard to the introduction of Bathurst's corrugating medium because semi-chemical corrugating medium had gone far in displacing other types of corrugating medium in the United States. Bathurst also exercised considerable initiative in introducing varying weights of liner from 1952 on, which were not at that time in the trade customs, and were not produced by other manufacturers in Canada. The evidence shows that this was being demanded of Bathurst by certain users of cartons, in particular those who wanted cartons made from 37 1/2 pound liner. The evidence suggests that Bathurst believed that the breweries would be asking for this type of liner. Here again it is possible to see the influence of potential American competition. In British Columbia Crown Zellerbach also took the initiative in widening the range of boards which it manufactured, and in this case also the evidence is explicit that it was the potential competition from American imports which motivated the new departure.

Imports of containerboard have always been a very small part of the Canadian supply, never over 4.75 per cent of it in the period 1947-58. Nevertheless, this percentage has been larger than the import proportion of the Canadian supply of containers, the latter never being over 1.62 per cent since 1950. This is rather interesting



in view of the higher duties on board; one would expect, on the basis of duties alone, that the opposite result would obtain. It may be that the higher freight rates on the more highly manufactured product provides the explanation as well as the fact that the duties provide protection on the converting costs.

#### 7. Board Manufacturers' Attitude Toward New Products

---

Reference has been made earlier in this chapter to the detrimental effect on prices occasioned by the delays in adopting "cost" sheets for B-flute corrugating material and in adopting the American specifications for shipping containers, these delays in both instances being due to opposition to the proposed changes on the part of certain companies. The Commission desires to make the following additional comments.

In the matter of changes in specifications, the kraft and jute makers clearly had divergent interests. This in itself explains the attitude of Gair and Hinde & Dauch, whose opposition must be regarded, at least in part, as an attempt to protect an obsolescent product and thereby their own business and profits.

The fact that several of the boxes being manufactured prior to the change in the Canadian Freight Classification were below the minimum specifications while the 65-pound box was above them, was a factor in the predominant importance of the 65-pound box in this period. Because the combined weight of the kraft linerboards used in the 65-pound box prior to the beginning of manufacture of 42-pound kraft liner in late 1953 was ten pounds above the minimum requirements meant that a needlessly large tonnage of kraft board was consumed in the production of that box. It also meant that freight costs on this linerboard and on the 65-pound boxes made from it were needlessly high. The efforts of the jute producers to prevent the change in the Canadian Freight Classification meant in effect an effort to continue the production and use of liners which, because they were necessarily very heavy (62-64 pounds per 1,000 sq. ft.) in order to meet the minimum Mullen test, involved a similarly wasteful expenditure on freight.

The evidence shows that some new specifications of board were being manufactured before the Canadian Freight Classification No. 20 was approved by the Board of Transport Commissioners and made effective (March 1, 1955) and in fact before March 1, 1954 when the container manufacturers realized that the Canadian Freight Classification Committee was going to submit the revised specifications to the Board of Transport Commissioners for approval. Some rearrangement of the pattern of demand for the various types of box had occurred

as a result of the availability of 37 1/2-pound kraft liners and 42-pound kraft liners. The change in official specifications apparently caused a further change in the pattern of demand. These changes in the proportions in which the 65-pound box, 40-pound box and 20-pound box were used suggest that prior to the introduction of these new liners and also prior to the change in the Canadian Freight Classification No. 20, an unsatisfied demand for certain types of box made to standards acceptable to the Canadian Freight Association existed. To the extent that the efforts of the board and box producers were aimed at preventing changes in specifications they had the effect of frustrating this demand.

The attitude of the carton producers towards the pricing of B-flutes is another instance of deliberate manipulation of demand giving rise to public detriment. The pricing of B-flutes was done in such a way as to offset its inherent advantages (in cases where B-flutes would have made a satisfactory box), which were the use of a smaller amount of corrugating medium per thousand feet of liner and potential saving in cost to the purchaser of combined board or cartons made from it. Thinner partitions would also mean slightly smaller cartons in cases where partitions were used. The smaller amount of corrugating medium required for B-flute would also have lessened the incidence of freight charges on cartons which used B-flutes in preference to A-flutes.

#### 8. The Method of "Costing"

The so-called "costing" provided for in the Container Statistics Manual, in reality the setting out of price components, was modelled closely after the method set out in Administrator's Manual "B". Administrator's Manual "B" had been based on the costs of a number of firms in the shipping container industry which had been compiled and, after striking out the lowest cost and highest cost firms' figures, had been averaged. Prices had been based upon these average costs. Setting prices on average costs of the firms in an industry gives some protection to the high-cost firms and the elimination of price competition between them and the low-cost firms gives above-normal profits to the low-cost firms while reducing the likelihood of removal of the inefficient firms from the industry through the process of price competition. Thus pricing on the basis of average costs leads to a waste of resources.

The evidence shows that Hayes's revisions were not based on information as wide as that of Manual "B". On his own admission the revisions of the manual were based on figures obtained from small numbers of firms, among which large firms predominated. He stated that among the firms prominent in providing "costing" information on which revisions were made were Hinde & Dauch and Bathurst. Pricing on the basis of information obtained from a few firms would

necessarily result in the protection of the particular economic interests of those firms.

It was shown in the evidence that Administrator's Manual "B" was based on a number of arbitrary assumptions which were taken over into the Container Statistics Limited manual. Hayes himself stated (in documentary evidence) from time to time that the "costing" was unrealistic owing to the progress of technological change. There is reason to think that such technological change would have resulted in lower prices had the individual firms of the industry been required by competition to price on the basis of an improved technology and the cost reductions which it could be expected to bring about. Pricing on the basis of an outmoded technology would prevent the emergency of these beneficial effects on prices. The agreement on prices, reinforced by market rigidity in the allocations of board, tended to prevent the expansion of sales of the low-cost, efficient firms, and to maintain the sales of the high-cost, less-efficient firms.

#### 9. Apparent Exceptions to the Pricing System

In some cases there was price cutting from the levels established by the Container Statistics Limited manual and special price lists. Such price cutting took the form of discounts from the prices established by the use of the manual, and was presumably forced on the box makers by customers with some strategic advantage which made their elasticity of demand higher than that of other less fortunately situated firms. Their more elastic demand arose from such factors as the ability to import shipping containers, the potential ability to manufacture shipping containers themselves, or, in the case of certain users in British Columbia, the duty drawback on containers imported for re-export. Other factors which led to lower prices to some consumers were common ownership of the shipping container firm and a customer, or interlocking directorates of the producer and consumer. The general pattern was that the price cuts took the form of discounts from the levels established by the Container Statistics system. Although discounts were given by some small firms to customers to whom the particular firms sold considerable proportions of their output, the actual proportion of these sales made at discount is unknown, except that in the case of Hendershot it appears to have been always more than half and sometimes as much as two-thirds of total sales. There is no evidence that for the industry as a whole below-agreement prices accounted for a significant proportion of total sales. The agreement held and was effective for years over the overwhelming majority of sales. Thus it appears that prices were kept needlessly high on a product of growing importance to Canadian industry.



## 10. Profitability and the "Costing" Manual

We have seen that the shipping container industry was, at least during the years 1948 to 1954, among the most highly profitable of all Canadian industries. This may have been due to a variety of causes, and the Commission desires to comment only on one feature derived from the profit figures shown in this report, viz: the relationship between profits earned and the "cost" plus mark-up manual system.

The argument that the Container Statistics Manual was a true cost manual and that the mark-ups used by the firms individually to arrive at prices were mark-ups over closely accurate actual cost would appear valid if it could be shown that the profits before income tax of the shipping container companies in Ontario were equal to or approximately equal to five per cent of the value of their net sales. An examination of the financial statements of five unintegrated Ontario shipping container firms for the years 1948-54 revealed that profits before taxes for the last five of these years were higher for each of the five companies, and usually much higher, than five per cent. Even Hendershot, which gave additional discounts on a very large percentage of its total sales, had profits before income tax of five per cent or less in only the first two years of the period 1948-54, and in the last four years averaged better than ten per cent. Hygrade's profits throughout the seven years were always substantially better than twice five per cent, and in 1950 and 1954 were more than three times that rate.

It is clear, therefore, that the figures in the Container Statistics Manual for the Ontario-Quebec "costing" zone were not close approximations to true costs, but must have included something in addition to actual costs, for when these firms used it in connection with a so-called mark-up of five per cent their profits exceeded five per cent in the great majority of instances.

It is also clear from the figures that the actual costs varied substantially from company to company in the industry.

## 11. The Effect of the Acquisitions

It is impossible to get a clear picture of the situation that exists to-day in the industry without examining the effect of the numerous acquisitions upon the structure of the industry and the likely consequences thereof upon competition and industry performance. We propose to discuss this problem at the end of Part II of this report. Part II deals, in separate chapters, with the several mergers about which the Statement of Evidence makes allegations.

## 12. General Detriment

Besides the specific detriment outlined above, there is general detriment arising out of the arrangements of the converters and board makers. Such restrictive arrangements tend to protect the inefficient. They tend also to slow up the introduction of new products. They promote the waste of resources in excessive freights or in the promotion of less efficient, at the expense of more efficient, products. The whole structure of the industry becomes rigid and inflexible in a rapidly changing economic world. Packaging becomes more expensive. This is bad for the export trade, and also for Canadian industries trying to compete with imported goods. The over-pricing of shipping containers places a burden on domestic industries, the cost of which is borne ultimately by the individual, either as consumer, in the form of higher prices for the products he buys, or by Canadian factors of production in the form of lower returns for their contribution to the national income.

## 13. Participation by the Companies

Counsel for several of the individual companies argued that there was no evidence to indicate that their particular client had been a party to any arrangement or agreement concerning the preparation or use of the Container Statistics Manual, or argued that their client had merely followed prices set by bigger companies without being associated in any way with the determination of what those prices would be. In other words, their client had not assisted in making any arrangement or agreement as alleged by the Director, nor had it done anything to assist in carrying out any such arrangement or agreement.

The evidence is much more voluminous in respect of some companies than of others. The Commission has found that the evidence does not lead to some of the conclusions drawn by the Director, e.g., the allegations of market sharing between Bathurst and Brompton. However, on the main issue of the price setting arrangements, the Commission is of the opinion that all the companies knew the nature of the arrangements, and by their actions assisted, in greater or less degree in making those arrangements effective. Some of the companies were participants in the arrangements for a part only of the period covered by the inquiry. The Commission does not deem it necessary for the purpose of this report to analyse the evidence in respect of each individual company. Mr. Hayes's position as a key person in the setting up and operation of the Container Statistics arrangements is clear.



## PART II - THE ACQUISITIONS

### CHAPTER XIV

#### BATHURST'S ACQUISITION OF SHIPPING CONTAINERS

##### 1. Method of Acquisition and Position Taken by Director

The following acquisitions by Bathurst are referred to in the Statement of Evidence and will be dealt with in turn in this report:

Shipping Containers and Kraft Containers (1945-46), Canadian Wirebound (1954), Norwood (1958) and acquisitions of minority interest in Maritime (1958).

The following allegations are made in the Statement of Evidence with respect to the acquisition of Shipping Containers by Bathurst and in part to the other acquisitions:

- "1. In connection with each of these mergers except that involving a minority stock interest in Maritime, which was not investigated from this point of view, the purchase price was greatly in excess of the value of the physical assets acquired and the effect was to saddle the converting branch of Bathurst with unduly high overhead costs, which must be borne in the final analysis by users of shipping containers and the general public.
2. A potential new entrant into the shipping container industry was induced to abandon its intention to enter, as part of the consideration in the purchase of Shipping Containers and Kraft Containers.
3. The succeeding acquisitions of the three Central Canadian converters eliminated important potential competition among them."

(Statement of Evidence, Vol. IV, p. 903)

The circumstances of Bathurst's acquisition of Shipping Containers are described in the Statement of Evidence as follows:

"E. Acquisition of SHIPPING CONTAINERS by BATHURST

242. According to BATHURST's return of information (Exhibit 82) this acquisition was completed on September 30, 1945, by the purchase of all the issued capital stock of SHIPPING CONTAINERS. The negotiations relating to this purchase are the subject of documentary evidence (Serials A25723-37, A25739-47, A25784-8, A27094, all 2BAM).

243. F.C. Hayes, then an officer of SHIPPING CONTAINERS, represented his fellow shareholders and Nesbitt Thomson & Company Limited acted for BATHURST. Mr. Hayes, however, was at all times aware that BATHURST was the principal. The negotiations culminated in the transfer of the 9,000 issued shares to BATHURST at a price of \$122.22 per share, a total cost to BATHURST of \$1,100,000. In addition an amount of \$4,500 was paid to Mr. Hayes in 1949 as a final settlement. In June 1945 BATHURST had offered to purchase the shares at \$110 per share, and the documentation does not disclose the reason why this figure was increased to \$122.22. In this connection, however, the following letter written by Mr. Hayes to BATHURST on September 28, 1945, is of significance:

'We have been negotiating for the acquisition of control of Shipping Containers, Limited, by your Company through me.

Moreover myself and my associates, H.S. Litteljohn and W. Swanson, both of Hamilton, Ontario, have been making arrangements for a new enterprise involving the establishment of a new plant in the vicinity of the City of Toronto, Ontario, for the manufacture of shipping containers, and, in this connection, we have, amongst other things, acquired certain land, ordered certain machinery and negotiated for certain sales contracts.

It is understood and agreed, for good and valuable consideration, that if your Company or your nominees so acquire control of Shipping Containers, Limited, pursuant to our negotiations:

- (a) I shall continue to be employed by Shipping Containers, Limited, or its successors or associate Companies in such position, for such period, at such salary and upon such terms

and conditions as may be mutually agreeable to myself and that company by which I am employed and

- (b) My interest in all arrangements made for the new enterprise hereinbefore mentioned shall be transferred to Shipping Containers, Limited, or its successor or associate companies, as you may direct, at the cost of such interest to me provided such cost meets with your approval and I shall moreover use my best efforts to cause the respective interests of my two associates to be likewise transferred on such terms and conditions as may be agreeable to the company transferee.

Please acknowledge this letter and confirm the foregoing understanding and agreement.

Yours very truly,

"Frederic C. Hayes"

Montreal, September 28, 1945.

We hereby acknowledge receipt of the foregoing letter and confirm the understanding and agreement therein set out.

BATHURST POWER AND PAPER COMPANY, LIMITED

per "R. L. W."                      President

per "H. J. W."    Vice Pres. & Secretary'

(Serial A25729 2BAM)

244.        As of September 30, 1945, SHIPPING CONTAINERS' 9,000 shares were carried in the balance sheet at \$45,000 and its surplus amounted to \$517,220, so that the equity per share in the company was approximately \$62.50 (Serials A25746-7 2BAM). This represented practically no change from June 30, 1945 (Serial A25786 2BAM). The Secretary-Treasurer of BATHURST writing about the matter in 1952 stated that after making some additional adjustments in the September 30, 1945, balance sheet the excess cost to BATHURST was \$544,752.25 over the book value of assets of \$559,747.75 (Serials A25744-5 2BAM).

245. R.L. Weldon's evidence as to the reason why the acquisition was made, was:

'Q. With reference to the acquisition by your company of Kraft Containers and Shipping Containers, may I ask why you did that?

A. Because we believed we could do a better collective job for the company by owning these businesses. We hoped to make money.

Q. Would you agree you paid through the nose for that?

A. No.

Q. At any rate, you paid a good deal more than the net worth of the companies?

A. Well, that is introducing a very interesting phase, as to what is the value of a company as compared to its book value at any given moment.

Q. You mean by that that the principal thing is the earnings of the company?

A. The earnings of the company, the prospects of the company and, if you like, the principal thing is also the plant and equipment which you have. But over and above that there is the organization to run it.'

(Evidence pp. 6879-80)"

(Statement of Evidence, Vol. IV, pp. 843-44)

Mr. Weldon further testified as follows:

"THE WITNESS:

. . . In the development of our company as I watched it and participated in it, we had felt long before that eventually it would be advisable for us to get into the box business as well as the board business. Now that was not a new idea at the date we bought either Kraft Containers or Shipping Containers. It was an older idea as far as I was personally concerned in the picture, and the question of when we would get in would also be

a question of when we would have an opportunity to get in and not always a question of making a decision at any particular given moment; so that the opportunity had to come at a time when we could persuade a major outlet to sell their business and those dates occurred -- well, in the case of Shipping Containers, almost immediately after the war it was brought to a culmination, and in the case of Kraft Containers a few months later. So we seized the opportunity when we got it, and it was not done with any objective of allocating money to one rather than to the other; it was done because we felt it was good policy for our company to get into the manufacture of boxes so that we would then have outlets for our board, which was part of our own business.

Q. Now at the time when you purchased these two companies were plans on foot and actual purchases made by the members of each of these companies to set up another box plant contrary to your desire?

A. One of the members of Shipping Containers and the major member of Kraft Containers had made some plans for setting up another box plant at the time we purchased.

Q. So that instead of being propitious per se, this moment was made propitious by you?

A. Not at all. We had been endeavouring to seize a propitious moment or, shall we say, an effectual opportunity for some little time before that.

Q. And when you did finally make this move was it because of plans to set up another factory?

A. Not at all.

Q. Was the price that you paid to them, each of them, a very generous price?

A. You asked me that question before, this morning, and I said I thought not. Naturally it had to be adequate."

(Evidence, pp. 6905-07)



## 2. Consideration of Allegations

The Statement of Evidence asserts that the price paid by Bathurst for Shipping Containers exceeded the book value of the assets of the latter company by approximately \$545,000, and that this resulted in saddling the converting branch with unduly high overhead costs which would be borne by users of shipping containers and the general public.

The allegation is based on the implicit assumption that the value of a company to a purchaser is realistically indicated by shareholders' equity, which is taken to be the value of their shares plus surplus as carried on the company's balance sheet. Assuming that the \$45,000 appearing in the balance sheet of Shipping Containers represents the sum for which the shares were originally sold, this figure could be taken as the initial investment in the company. Assuming also that the surplus account represented accurately the amount owing to shareholders and arising from amounts invested from retained earnings, the sum of the two might be taken as representing the amount of the shareholders' historical investment, voluntary or otherwise.

However, there is no reason to accept the value of shares at time of original issue, plus accumulated surplus, as an accurate indicator of the value of a company to either its owners or prospective purchasers. A number of circumstances might render the shareholders' investment, regardless of its size, completely worthless or nearly so, e.g., obsolescence of equipment or product, damage or destruction of machinery, buildings, inventory, etc., by fire or other accident. On the other hand, circumstances might raise the value of a company far above any measure of historical investment, e.g., a sudden upsurge of demand for the product, increased efficiency in organization, technological advance unique to the company, hiring of executives of outstanding talent, rise in prices, or new or improved products, any or all of which might greatly increase the current and prospective earnings of the company.

Furthermore, the value of a company's shares as carried on its books may bear no relationship either to their market value or to their actual earning power, because their book value is not determined by the interplay of market forces. This is true also of market value when a company's shares are closely held and thus not traded freely in substantial quantity on the open market. There is no evidence that Shipping Containers' shares were traded freely on the open market. There is some evidence to the contrary. The Financial Post Survey of Corporate Securities for 1945 and 1946 does not list Shipping Containers in its pages entitled "Price Range of Canadian Corporation Securities". In addition, the letters which passed between F.C. Hayes and Bathurst indicate holdings of shares as follows:

L. T. Hayes	2,204 shares	
Mrs. J. M. Hayes	826	"
F. C. Hayes	1,605	"
	<hr/>	
	4,635	"

Source: Serials A25723-26 2BAM

Thus over half of the outstanding shares is accounted for by the holdings of three persons. We do not know by whom, or in what proportions, the remaining shares were held.

Even if Shipping Containers' shares had been valued by regular market processes, the actions of a purchaser obviously bent on buying control would send the price to premium levels. Enhancement of the share price could reasonably be expected also where a few large shareholders are approached with an open bid for control.

The evidence does not lead the Commission to doubt that the purchase price reflected Bathurst's evaluation of Shipping Containers' plant, equipment, organization, earnings and prospects, including its value to and as a part of the Bathurst organization. This would be a realistic basis of appraisal for the purchasers. Historical investment is clearly an irrelevant one.

For the foregoing reasons the Commission considers that the allegation that the acquisition price paid by Bathurst was excessive, if taken to mean that it was in excess of shareholders' investment as defined by book value of shares plus surplus, is not well founded.

It is also alleged by the Director that the purchase price was greatly in excess of the value of the physical assets acquired and that this resulted in unduly high overhead costs. In this connection the Commission notes that the evidence relied on by the Director and presented in full in the excerpt from the Statement of Evidence quoted earlier in this chapter, does not establish the relationship between purchase price and value of assets. The Director has referred to an excessive price in relation to value of shareholders' equity. Here again, the Commission's view is that the value of physical assets may be a most unreliable measure of the worth of a company as a going concern. Similarly the Commission holds that the allegation that Bathurst was saddled with unduly high overhead costs arising from an excessive price of acquisition has not been proved.

The second allegation is that as a result of that part of the deal between F. C. Hayes and Bathurst, whereby the former agreed to transfer to Shipping Containers his interest in a new enterprise which

he was in process of organizing, a potential competitor who intended to enter the industry withdrew.

It is true that F.C. Hayes and two associates, H.S. Litteljohn and W. Swanson, were engaged in organizing a new shipping container enterprise and had "acquired certain land, ordered certain machinery and negotiated for certain sales contracts" (Serial A25729 2BAM). Mr. Hayes agreed to turn over his interest in the new enterprise to Shipping Containers Limited or its successor or associate companies, as Bathurst might direct, as part of the agreement for the acquisition of Shipping Containers Limited by Bathurst. He also agreed to use his best efforts to cause his two associates in the new enterprise to do likewise. There is, however, no evidence which the Commission feels should lead to the conclusion that the proposed new enterprise played a significant part in the negotiations for the acquisition of Shipping Containers Limited. The new enterprise had not been established, nor, from the limited evidence before us, do we feel at all certain that it would have been established if there had been no reference to it in the agreement for the acquisition of Shipping Containers Limited.

Had there been evidence showing that the proposed enterprise had been conceived and carried for some distance before negotiation for the sale of Shipping Containers were begun, the matter would have quite a different appearance. Such evidence on timing as exists, however, is to the contrary. Letters of F.C. Hayes, dated June 22, 1945 (Serials A25723-28 2BAM) deal with sales of shares to Bathurst by himself and others. The interests of F.C. Hayes and associates in the putative new enterprise are first stated in a letter dated September 28, 1945 (Serial A25729 2BAM). This was only two days before the acquisition was completed. While it may be assumed that discussions concerning the new enterprise took place before September 28, there is no evidence on the point.

The Commission's conclusion is that the Director's allegation on this aspect of the acquisition is not proven.

The acquisition of Shipping Containers gave to Bathurst a market under its own ownership for more than one-quarter of its total output of board - 27.2 per cent of it in 1947 and 27.9 per cent of it in 1954. At the same time it acquired a converting enterprise which from 1948 to 1954 accounted for about 11 per cent of the total production of shipping containers in the provinces of Ontario and Quebec.

Let us consider the implications of this acquisition for the board market.

Because Shipping Containers, due to an exclusive supplying contract with Bathurst, had been virtually a captive market for some years, the acquisition changed nothing in this respect. It might be argue



that while under separate ownership Shipping Containers retained the freedom to cancel its contract with Bathurst and find an alternative source of board. The evidence shows, however, that the post-war market for board, at least till 1954, was so inflexible that completely independent converters had practically no power to shop around in search of supplies, unless they chose to import.

Again, the board manufacturers maintained identical prices for the various grades of board. Bathurst, having acquired an interest in the container business may be presumed to have wanted it to be a profitable interest. Assuming that box prices were already at or near the ceiling set by potential or real American competition, as seems to have been the case, any attempt by Bathurst to push up board prices could only have the effect of reducing the profitability of its new subsidiary.

In short, with board prices and container prices established in the absence of domestic competition and board supplies made relatively inflexible by exclusive dealing contracts, the acquisition of Shipping Containers by Bathurst would have a negligible effect on industry behaviour at the time it was made.

There is, however, a potential source of detriment arising from this acquisition. Keeping in mind what Hinde & Dauch actually did with respect to supplies of board to independent corrugators when it proceeded to expand its own production of shipping containers but not its production of board, one would conclude that independent customers of Bathurst might be placed in somewhat the same position if Bathurst decided on a similar course. In fairness it should be stated that we have no evidence that any such action has ever been taken by Bathurst and Mr. Weldon's evidence in connection with Wirebound indicates that Bathurst might not do so. That such a possibility would suggest itself to potential entrants into the manufacture of shipping containers one cannot doubt, nor that it would act as a powerful deterrent to such entry. Similarly the fact that a substantial fraction of Ontario-Quebec capacity for the production of shipping containers had passed into the ownership and control of a board manufacturer, would have the tendency of discouraging entries into the manufacture of containerboard.

## CHAPTER XV

### BATHURST'S ACQUISITION OF KRAFT CONTAINERS

#### 1. Method of Acquisition and Position Taken by Director

In the previous chapter it was pointed out that the Director made the same allegations with respect to several of the acquisitions made by Bathurst. In connection with the acquisition of Kraft Containers the allegation is also made that overhead costs were unduly increased by reason of the price paid.

The circumstances of the acquisition of Kraft Containers are described as follows in the Statement of Evidence:

"246. It will be recalled that Mr. Hayes was engaged during 1945 in plans for the establishment in Toronto of a new shipping containers plant jointly with H.S. Litteljohn and W. Swanson of Hamilton, and part of the consideration for the purchase of SHIPPING CONTAINERS was that he would transfer his interest in the new enterprise to SHIPPING CONTAINERS and try to persuade his two associates to do likewise. This appears from Serial A25729 2BAM cited in section E above. H.S. Litteljohn was at that time President of KRAFT CONTAINERS, which company was also acquired by BATHURST a few months later, as of January 1, 1946, by way of purchase of all the issued common stock of the company. There were 14,000 no par value shares, issued at \$140,000, and the company's surplus as of December 31, 1945, was \$607,809.72, making a net worth of \$747,809.72, or an equity per share of approximately \$53.41 per share (Exhibit 38).

247. The negotiations are the subject of documentary evidence (Serials A25748-71, A27095-7, A27103-4, all 2BAM; Serials A27178, A27181-6, all BAN). The shares of KRAFT CONTAINERS were held in approximately equal proportions by Mr. and Mrs. Litteljohn, on the one hand, and on the other hand by a holding company owned by the successors of Mrs. Litteljohn's father, the late C.J. Munce. The price paid by BATHURST was \$90 per share against the equity value of \$53.41, being an excess cost over the book value (\$747,800) of approximately \$512,000. In a separate agreement with BATHURST, which became one



of the considerations of the purchase, H.S. Litteljohn was retained in the employment of the company for two years (which in fact was just the beginning of a continued association up to the date of the hearings) and undertook not to be interested directly or otherwise in any competing company in Manitoba or east for the period of such employment. In addition, he made the following undertaking:

'All my interest and rights in or in connection with all property, plans, preparations and arrangements acquired, made or under way at the time of transfer respecting the project of establishing a new enterprise in or near Toronto for the manufacture of shipping containers will be transferred to Kraft, or any of its successors or assigns or associate companies, as Bathurst may specify and when Bathurst may request, at the price of three thousand (\$3000.) dollars, and I shall also use my best efforts to cause the respective interests of all those associated with me in such project to be likewise transferred on such terms and conditions as may be agreeable to the transferee or transferees which Bathurst may specify, it being understood that you will use all reasonable diligence in endeavouring to arrive promptly at an agreement with these associates.'

(Serial A25750 2BAM)"

(Statement of Evidence, Vol. IV, p. 845)

## 2. Consideration of Allegations

As the circumstances surrounding the acquisition of Kraft Containers by Bathurst and the allegations made by the Director with respect to the acquisition are of the same general nature as those discussed in the preceding chapter the Commission's evaluation of the Director's allegations with respect to Bathurst's acquisition of Kraft Containers may be taken as set out in that chapter. The following additional comments may be made.

The Statement of Evidence states that the shares of Kraft Containers, prior to their acquisition by Bathurst, were closely held, and were entered on the balance sheet of the former company at the price of issue. Any correspondence between this balance sheet value and a realistic appraisal of the value of the shares would be purely coincidental.

By the acquisition of Kraft Containers Bathurst secured ownership of an enterprise producing about 11 per cent of the total shipping containers manufactured in the provinces of Ontario and Quebec in the period 1948-54. It gave Bathurst ownership of a converting operation which used a considerable fraction of its output of board, the percentages of Bathurst's total domestic sales to its subsidiary being 28.42 in 1947, 31.28 in 1950, and 29.34 in 1954. The conclusions of the Commission in this situation are the same as were noted in the case of Bathurst's acquisition of Shipping Containers.

## CHAPTER XVI

### BATHURST'S ACQUISITION OF CANADIAN WIREBOUND

#### 1. Method of Acquisition and Position Taken by Director

The general allegations of the Director with respect to Bathurst's acquisition of Canadian Wirebound have already been indicated and are of the same nature as those applied to the acquisitions of Shipping Containers and Kraft Containers.

The circumstances of the acquisition of Canadian Wirebound are described as follows in the Statement of Evidence:

"248. This acquisition by BATHURST was deemed to be effective as of October 1, 1954, although the actual purchase of the issued capital stock of CANADIAN WIREBOUND actually took place on November 3, 1954 (Exhibit 39). Negotiations were firmly under way by June 22, 1954, when a memorandum of agreement between BATHURST and A. M. Dunn, President and Managing Director of CANADIAN WIREBOUND was signed (Serials A25795-7 2BAM) and pursuant to this agreement an offer was made by the Chartered Trust Company to the shareholders of CANADIAN WIREBOUND (Serials A25798-802 2BAM), which was endorsed by Mr. Dunn (Serial A25804 2BAM). The deal was consummated at the price of \$64 per share in accordance with the original offer (Serial A25821 2BAM).

249. There were outstanding 90,915 shares of two different classes of common stock, for which the total price of \$5,818,560 was paid. This was some \$700,000 below the net worth figure disclosed in the balance sheet of CANADIAN WIREBOUND as of September 30, 1954 (Serials A25827-30 2BAM), calculated on the assumption that the increase in surplus arising from successive reappraisals of fixed assets represented a realistic valuation and should be included in net worth. On the contrary assumption it was \$2,391,000 more than the net worth disclosed by the company's balance sheet after eliminating the excess of reappraisal values over book values.

. . .

255. The valuation placed by BATHURST on the stock of CANADIAN WIREBOUND was, however, fairly well justified by the company's earning power. During the five financial years ending April 30, 1950 to 1954, its average net profits after taxes amounted to about \$560,000, which would give a return of 9.6 per cent per year on the \$5.8 million paid for the stock. In the context of these years of high activity this is a modest return."

(Statement of Evidence, Vol. IV, pp. 845-46)

Mr. Weldon gave the following testimony with respect to the acquisition of Canadian Wirebound:

"Q. You have said that your basic reason for acquiring box plants, Shipping Containers and Kraft Containers, was in order to integrate your operations and have a controlled outlet. How about the acquisition of Canadian Wirebound Boxes in 1954? Was there the same reason there?

A. Well, we did two things with that situation: we broadened our picture and added wood containers to our field of operation and at the same time increased our total volume of business in that particular field. It appeared to be a good investment.

Q. And you put yourself in the position, with this third acquisition, where you controlled a third of the box-making production in Canada?

A. I don't think it is quite as large as that but it certainly put us in the position of controlling a fairly large business.

Q. And in order to do this it was necessary to secure supplies of board from your competitors. Is that correct?

A. We considered it was good business and good management to continue marketing board on the open market rather than buy board. There is a variety of reasons that make sense of that, but not the least is to prevent the management of your box plant taking the mill captive or prevent the mill from taking the box plant captive. It is an extremely important device of management to control your operation. I have never felt it was advisable for us to discontinue marketing board and I have felt it was advisable for us to buy board.



- Q. You already have these box plants captive and you have supplies to supply them. How does that affect the issue?
- A. I just used the word 'captive' and I mean that. We do not want among other things a tremendous, shall we say, push-over between the mill and the box plant with regard to quality, nor do we want the reverse. We want to remain in the commercial competitive field, and it is much easier to provide internal management both in the market with your product as board and if you are buying outside board from the market.
- Q. Did you also have in mind that when all of the board manufacturers and all of the box manufacturers were taking in each other's washing in this way the ability to pursue your own policies was very considerably enhanced?
- A. I suppose that might be the natural outcome but it was not necessarily the reason.
- Q. It would be an outcome, though?
- A. I suppose you might conclude that, but I do not say it is an outcome."

(Evidence pp. 6911-12)

## 2. Consideration of Allegations

As indicated in the parts of the Statement of Evidence quoted above the price paid by Bathurst for the shares of Canadian Wirebound was less than the net worth figure disclosed by the balance sheet. In order to support the contention that the price paid on acquisition was in excess of the actual value of the company the Director relied on the fact that there had been successive reappraisals of the fixed assets of Canadian Wirebound in the period prior to its purchase by Bathurst, leading to a substantial appreciation of values shown in the balance sheets. Whether such appreciation is justifiable or not is immaterial in relation to its value as a going concern, for the value of a business enterprise is not equal to the recorded value of its assets, but may be either more or less, as explained in Chapter XIV. The earnings which a given investment appears likely to produce provide the essential criterion of reasonableness of price of acquisition. And, as the Director says, "The valuation placed by BATHURST on the stock of CANADIAN WIREBOUND was, however, fairly well justified by the company's earning power." (Statement of Evidence, Vol. IV, para. 255, p. 848).



The allegation that such price saddled the converting branch of Bathurst with unduly high overhead costs, borne ultimately by the public, being the same as that made with regard to Bathurst's acquisition of Shipping Containers is subject to the same reasoning as that presented in Chapter XIV.

On the other hand, an element of past public detriment was reflected in the purchase price. Evidence marshalled in previous chapters of this report has shown in detail how the firms associated with Container Statistics or F.C. Hayes arranged for a system of uniform prices within designated pricing zones, subject to certain exceptions. It is inconceivable that the immense amount of work undertaken by Container Statistics Limited and the associated companies was not for the purpose of making prices higher than they otherwise would have been. Indeed, the evidence shows quite clearly that whenever the control maintained by the Container Statistics' system was challenged by import competition, actual or potential, prices were forced below the levels established by the Container Statistics' system. The initial imposition of the manual pricing system had the effect of raising prices. According to the companies using the Ready Reckoner and other instruments and practices of the Container Statistics' system may be presumed to have had likely earnings and prospects of earnings higher than they would have been in the absence of that system. Consequently, although the price of acquisition may not have been unduly high in relation to actual and prospective earnings, the price of acquisition reflects earnings arising from the common pricing system in the industry.

At the same time the price paid for Canadian Wirebound could not have been added to the overhead costs of Bathurst in such a way as to increase further prices paid by users, if by that is meant (from the context this is the only thing it could mean) that overhead costs are an element in price, and higher overhead costs mean higher prices. This conclusion may be reached by the following line of reasoning.

If the prices of shipping containers continued to be the result of a common system of pricing in the industry the upper limit of price would be set, not by overhead costs, but by potential competition, which in this context meant import competition. If prices rose too high, customers would turn to American sources of supply. Hence prices would be set within the limitations thus imposed. The urge to push prices up to this limit would exist regardless of the purchase price paid by Bathurst. Therefore that purchase price could not be a further burden on the purchasers of shipping containers, for prices of corrugated cartons were already at the limit established by actual or potential American competition. If, on the other hand, competition reasserted itself in the container industry and prices were reduced as a result of rivalry among manufacturers the fact that one company had been purchased for a certain price would not enable it to maintain the prices of its products above the competitive level.

The acquisition of Canadian Wirebound differs from Bathurst's acquisition of Kraft Containers and Shipping Containers in that Bathurst was not, before acquiring Canadian Wirebound, one of the latter's suppliers of board and had no reserve capacity from which to supply its new subsidiary after acquisition. Bathurst then signed a supply contract with St. Lawrence, which had been supplying practically all of Canadian Wirebound's requirements. The annual amount specified was much higher than St. Lawrence's shipments to the independent Canadian Wirebound had ever been.

There are several possibilities of public detriment in this situation.

Firstly, the acquisition meant that Bathurst's already strong position in the container market was further enhanced. Consequently, Bathurst's ability to influence the pricing of shipping containers was also enhanced.

Secondly, the acquisition of Canadian Wirebound meant that what had been St. Lawrence's largest independent customer was now a subsidiary of a competitor in the board field. This would create the possibility of future loss of this board market to that competitor (Bathurst). Such a situation may have encouraged St. Lawrence to seek outlets for board under its own control and may have been a factor in St. Lawrence's subsequent acquisition of Hinde & Dauch.

Thirdly, the acquisition of Canadian Wirebound increased the proportion of the total Canadian supply of board being converted by Bathurst subsidiaries. In 1954, Shipping Containers and Kraft Containers received 57,220 out of 276,660 tons, or 20.7 per cent of the total shipments of board to container mills in the provinces of Ontario and Quebec. In the same year, assuming Canadian Wirebound had been owned by Bathurst for a full year, the percentage would have been 29.26 - approaching one-third of the total. Obviously the acquisition of Canadian Wirebound extended and strengthened Bathurst's ability to influence the pricing of board.

## CHAPTER XVII

### BATHURST'S ACQUISITION OF NORWOOD

#### 1. Method of Acquisition and Position Taken by Director

As in the case of the acquisitions by Bathurst already reviewed the Director alleged that the price at which Bathurst acquired Norwood saddled the enterprise with unduly high overhead costs. The Director also made the following allegation with respect to the acquisition of Norwood:

" . . .

4. The acquisition of NORWOOD eliminated the competition of a new entrant into the industry, independent of the organized industry, whose continued existence would have provided an important safeguard to the public. An agreement was reached with the former owners not to compete for five years.

. . ."

(Statement of Evidence, Vol. IV, p. 903)

The circumstances of the acquisition of Norwood are set out in the Statement of Evidence as follows:

"278. Bathurst Containers Limited, the wholly-owned subsidiary of BATHURST, acquired the assets and the corporate name of Norwood Box Co. Ltd. (NORWOOD), on June 14, 1958, as set out in the returns of information from both parties to the transaction, which are submitted with this Statement.

279. The monetary consideration was the payment by BATHURST of \$614,566 and the assumption by BATHURST of a liability of \$272,670, making the total purchase price \$887,236. The assets acquired were taken into the BATHURST books as follows:

Accounts Receivable	- \$156,027
Inventories	- 207,624
Prepaid Expenses	- 7,524
Property, plant and Equipment	- 516,061
	<u>\$887,236</u>

The first three groups of assets had been carried on the books of NORWOOD at the same valuation as adopted by BATHURST, but the fixed assets were written up on acquisition. The following shows the valuation of fixed assets on NORWOOD's books at the time of acquisition:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Machinery and Equipment	\$184,043	\$68,612	\$115,431
Boiler Room	10,114	902	9,212
Dies	7,427	7,427	-
Spur Track	3,299	259	3,040
Truck	2,000	1,020	980
Tractor	706	360	346
Office Equipment	1,455	246	1,209
	<u>209,044</u>	<u>78,826</u>	<u>130,218</u>

BATHURST paid \$385,843 more for all the NORWOOD assets than their book value and, in view of the character of the other assets acquired, all this excess must be ascribed to the fixed assets plus any intangibles such as goodwill. No account was set up by BATHURST for goodwill after the acquisition, but the fixed assets were written up to the extent of the excess payment. . . ."

(Statement of Evidence, Vol. IV, pp. 857-58)

The profit position of Norwood for four years prior to the acquisition by Bathurst is indicated by the following figures taken from reports of Norwood's auditors:

<u>Year ending:</u>			
Aug. 31, 1954	Net loss, before depreciation	\$6,466	
" 31, 1955	" " " "	11,682	
" 31, 1956	Net profit, after providing for depreciation	3,652	
" 31, 1957	Net profit, after providing for depreciation and taxes	34,238	

The Statement of Evidence continues:

"281. NORWOOD was owned by members of the Hatskin family of Winnipeg, principally Benjamin and Rubin. They had already established the nuisance value to the organized



trade of an independent competitor in connection with their sale of Canadian Western Box (Alberta) Limited in 1947, described above. When they sold out that plant to MARTIN they entered into a pact not to engage in the business for ten years. When NORWOOD was established in 1951 it was engaged in another business and its shares were in the name of the Hatskins, but on June 30, 1954, about the time it went into corrugated production all these shares were transferred to the company's solicitor and members of its auditing firm. Benjamin Hatskin resigned as President and Director. On June 3, 1958, just before the deal with BATHURST was consummated, all these shares were transferred back to Benjamin, Rubin and Louis Hatskin. Each of these persons then entered into covenants with BATHURST that they would not, directly or indirectly, engage in competition with BATHURST for a period of five years in the territory between the Head of the Lakes and the Rockies, and NORWOOD made the same covenant. A large part of the purchase price, almost \$365,000, was held back and arrangements made for its payment in semi-annual instalments over a period of ten years. And even longer-term business ties with the Hatskins were established in an agreement whereby BATHURST leased land and buildings from Hatskin Timber Co. Ltd. for its new branch, for twenty years with options for renewal thereafter. For the first twenty years the rent was set at \$2,400 per month, as against \$1,500 which was paid by NORWOOD in the year ended August 31, 1957.

282. With the purchase completed, there were three producers of shipping containers in the Winnipeg area, all being integrated companies, viz.: MARTIN PAPER, HINDE & DAUCH and Bathurst Containers Limited."

(Statement of Evidence, Vol. IV, pp. 858-59)

## 2. Consideration of Allegations

As regards the allegation that the price paid by Bathurst was in excess of the net worth of Norwood, reference may be made to the consideration of similar allegations in previous chapters of this report. We may summarize by saying that the fact that the purchase price for Norwood was higher by a considerable amount than the net worth of the company as carried on the books prior to acquisition does not mean that the price paid was excessive. The reasoning advanced in the first of these chapters on acquisitions may also be referred to in support of the conclusion that, even if the price were excessive by some criterion, there is no reason to suppose that this would have any influence of an adverse character on the users of boxes or upon the general public, because prices are not set with reference to investment.



On the other hand, very definite elements of public detriment do arise out of the acquisition. In the first place there is no evidence that Norwood, prior to acquisition by Bathurst, had agreed to price its products according to the Container Statistics pricing system, or that it retained Mr. Hayes for any services, or bought any manuals from him. As long, therefore, as Norwood was an independent producer of shipping containers there was always the possibility of its offering some degree of price competition to the other producers in the Prairie regions or elsewhere.

Although the operations of Norwood were unprofitable in 1954 and 1955, they showed a small profit in 1956 and a considerably higher one in 1957. The inference might be made that the purchase price of Norwood was not justified by its record of earnings. On the other hand, it is noteworthy that from a loss position of over \$11,000 in 1955 the firm got into a profit position of over \$34,000 in 1957. This represents an impressive improvement in its record of operations. Because investment is forward-looking, the price paid for the acquisition of a company must be judged not only by past earnings, but also by the prospects for future earnings. In this case, although the actual level of earnings was not impressive, yet the trend was certainly of such a character as to warrant an optimistic extrapolation.

Another element of detriment arising from the acquisition is that the disappearance of Norwood as an independent converter closed off one more potential customer to non-integrated board firms already in the industry, or any which might contemplate entry into it. Very little importance can be ascribed to this element of detriment, however, in view of the small scale of the operations of Norwood.

## CHAPTER XVIII

### BATHURST'S ACQUISITION OF A MINORITY STOCK INTEREST IN MARITIME

#### 1. Method of Acquisition and Position Taken by Director

Bathurst's acquisition of a minority interest in Maritime is described in the Statement of Evidence as follows:

" . . .

283. A return of information obtained from MARITIME establishes that on or about December 12, 1958, BATHURST acquired 5,248 shares out of the total issued stock of MARITIME. This total amounted to 15,000 shares, of which MINAS BASIN holds 8,300 shares. On December 12, 1958, MINAS BASIN and BATHURST entered into an agreement under which neither mill may sell their stockholdings to a third party without first offering to sell to the other, and in the meantime providing that the Board of Directors of MARITIME consist of one BATHURST nominee to each three directors.

. . ."

(Statement of Evidence, Vol. IV, p. 859)

The following allegation with respect to this acquisition is made in the Statement of Evidence:

- "(5) The acquisition of a minority stockholding and a voice in the management of MARITIME, together with a contractual right to purchase the shares of the majority stockholder in the event of its deciding to sell them, impaired potential future competition in the Maritimes. WILSON, the only other shipping container manufacturer in the Maritimes, which heretofore secured its supplies solely from BATHURST, was placed in a position of potential squeeze between container-board costs and box prices. Prior to the acquisition, MARITIME was one of the most likely

companies to undertake independent competitive action, since it was less dependent upon the organized industry for board supplies, which it obtained principally from its major shareholder, MINAS BASIN."

(Statement of Evidence, Vol. IV, p. 903)

2. Consideration of Allegations

The Commission considers that Bathurst's acquisition of a minority interest in Maritime in which Minas Basin already held a majority interest would be likely to restrict still further the limited competitive situation which existed in the Maritimes, where the market was being largely served by two container manufacturers, Maritime and Wilson. As the Director points out, independent action on the part of Maritime was made remote through joint ownership by two board companies and independent action on the part of Wilson was made less likely because of its dependence on Bathurst for supplies of board.

## CHAPTER XIX

### ACQUISITION OF MARTIN-HEWITT BY HINDE & DAUCH

#### 1. Method of Acquisition and Position Taken by Director

Martin-Hewitt was a relatively small company whose plant and head office were located in Peterborough, Ontario. It was independently owned throughout the period under inquiry until its stock was purchased by Hinde & Dauch on January 7, 1954 at a cost to Hinde & Dauch of \$500,000 (Exhibit 76).

From the financial statements of Martin-Hewitt, submitted as part of that company's Return of Information, one learns that as of December 31, 1953 the nominal net worth of the company, as shown in its balance sheet, was \$415,000, a figure which included approximately \$140,000 of goodwill. The latter sum had been carried on the balance sheet without change for at least 24 years (Serials A18073-81 4HDT). Excluding goodwill the adjusted net worth was approximately \$275,000. Thus the price paid by Hinde & Dauch exceeded this figure by some \$225,000.

The value of the fixed assets acquired by Hinde & Dauch appeared in Martin-Hewitt's balance sheet as follows:

Land and Siding at original cost	\$10,000
Depreciated value of buildings, December 31, 1953	53,600
Other Fixed Assets (Machinery and Equipment)	97,100
	<u>\$160,700</u>

The following comments as to the value of the assets acquired by Hinde & Dauch are made in the Statement of Evidence:

"261. This machinery, equipment, etc., consisted of pre-war plant acquired at a total cost of \$116,900, and carried on the books at the end of 1939 at a depreciated value of \$48,800. From 1939 to 1949, about \$29,700 was spent on new things and during the period only a modest amount was charged each year to repairs. Substantial

investment in new plant was only made in 1950 to 1953, when prices were at their highest, the net change in such assets at cost being \$123,400.

262. It is clear, therefore, that the excess cost of the company over its net worth was not paid because the assets were substantially under-valued on the books. The net profit after taxes for the three years 1951-53 inclusive, averaged about \$45,000, an average return of somewhat more than 10 per cent [sic - 9 per cent] of the HINDE & DAUCH investment. . . ."

(Statement of Evidence, Vol. IV, p. 852)

The Director alleged that acquisition of Martin-Hewitt by Hinde & Dauch eliminated potential future competition between the two companies and increased Hinde & Dauch's share of the container business. Martin-Hewitt's sales represented 1.6 per cent of the industry's production in Ontario-Quebec. The Director also alleged that the purchase price of Martin-Hewitt was greatly in excess of the physical assets acquired by Hinde & Dauch and that the effect was to saddle the enterprise with unduly high overhead costs.

## 2. Consideration of Allegations

For the reasons which have been set out in some detail in the preceding chapters dealing with acquisitions, the Commission does not consider that the purchase price paid for Martin-Hewitt by Hinde & Dauch had the effect attributed to it by the Director. The value to a prospective purchaser of a business enterprise is represented by neither the net worth arrived at in part on the basis of depreciated value of fixed assets, nor upon any reappraisal of the value of fixed assets to attempt to allow for rises in the price level. Business enterprise is forward-looking and investment decisions are rationally based on expectations of future earnings in relation to size of investment required to secure ownership or control of the business enterprise being considered. After citing the figures of earnings and investment and the relationship between them, the Director said: "Only on this basis can a valuation be arrived at which would justify so high a price." (Statement of Evidence, Vol. IV, para. 262, p. 852). In the circumstances this would appear to the Commission to be a valid basis.

The acquisition of Martin-Hewitt by Hinde & Dauch unquestionably eliminated the independent existence of a competitive firm in the shipping container industry. Martin-Hewitt was, however, a very small producer of shipping containers. Its percentage of the total production of shipping containers in the Central Provinces never rose above 1.85 per cent of the total. Hence any increased power that the acquisition of Martin-Hewitt gave Hinde & Dauch in the shipping container market would not be of significant importance in itself. However, it would have its part in the cumulative effect of a series of acquisitions.



## CHAPTER XX

### HINDE & DAUCH'S ACQUISITION OF CORRUGATED PAPER BOX

#### 1. Method of Acquisition and Position Taken by Director

The circumstances of the acquisition of Corrugated Paper Box by Hinde & Dauch are described in the Statement of Evidence as follows:

"263. On April 26, 1954, HINDE & DAUCH authorized a Toronto trust company to make a written offer to the shareholders of CORRUGATED PAPER BOX for the purchase of their shares at a price of \$17 per share, providing:

- '(a) That not less than 90% of the common shares of the capital stock were deposited by September 1, 1954.
- (b) That the financial position of the Company was substantially as good as that shown by the audited consolidated balance sheet of the Company and Subsidiaries as of December 31, 1953.'

(Serials A18326-30 4HDT)

These conditions having been met and the offer having been accepted by virtually all the shareholders, the deal was consummated before July 26, 1954 (Serial A18320 4HDT).

264. There were outstanding as of the date of the purchase 235,000 common shares of CORRUGATED PAPER BOX, which at \$17 per share, meant a total cost to HINDE & DAUCH of \$3,995,000. This was the amount actually paid (Exhibit 77 - financial statements of HINDE & DAUCH, 1954). There was also an issue of redeemable preferred shares outstanding as of the date of the purchase, the redemption price being \$105 and the par value \$100 per share (Exhibit 67 - financial statements).

265. CORRUGATED PAPER BOX was a holding as well as an operating company owning not only its own facilities for the manufacture of corrugated shipping containers, but also all the capital stock of HILTON. In addition, it had a second subsidiary, Carton Specialties Limited, manufacturing set-up and folding boxes at the same plant location in Toronto as CORRUGATED PAPER BOX. Consolidated financial statements of CORRUGATED PAPER BOX and subsidiaries are in evidence for the periods ended December 31, 1953 (Serials A18082-8 4HDT) and March 31, 1954 (Serials A18089-95 4HDT). The unconsolidated financial statements, for 1939 to 1954, of CORRUGATED PAPER BOX are in evidence as part of the returns of information of this company (Exhibit 67). Those of HILTON are in the return of information of that company. By comparison of these financial statements it is established that Carton Specialties Limited as of December 31, 1953, had fixed assets acquired at a total cost of \$351,000, and having a depreciated book value of \$121,000, being almost entirely plant and equipment, since its operations were conducted in the property owned by CORRUGATED PAPER BOX. This was less than 9 per cent of the total depreciated fixed assets of the consolidated group.

266. The excess of the price paid by HINDE & DAUCH over the net worth of CORRUGATED PAPER BOX and its subsidiaries is shown in the following calculation:

<u>Net Worth:</u>	<u>A s</u>	<u>A t</u>
	<u>Dec. 31, 1953</u>	<u>March 31, 1954</u>
Capital and Surplus	\$ 2,751,683	\$2,823,914
... less Preferred Stock		
at redemption value (\$105)	471,450	470,400
	<u>2,280,233</u>	<u>2,353,514</u>
Price paid by H. & D.	<u>3,995,000</u>	<u>3,995,000</u>
Excess over Net Worth	<u>\$ 1,714,767</u>	<u>\$1,641,486</u>

267. As was the case in the other business consolidations discussed above, the only assets of the company which might have been subject to substantial appreciation in value were the fixed assets, inventories of raw materials being purchased for quick consumption, and finished goods being manufactured against orders received. By following the valuation of assets through the balance sheets of CORRUGATED PAPER BOX and HILTON, it can be seen that at the end of 1939 these fixed assets had a depreciated book value of \$752,000. They were principally land, buildings, plant and equipment acquired at a total cost of \$1,232,000. From then until 1945 the net change in buildings, plant and equipment at cost

(providing an index of new assets acquired) was an addition of \$97,000, a large part being for plant and equipment at HILTON. As depreciation was being charged at a faster rate than acquisitions were made, the depreciated value of fixed assets was \$73,000 below the 1939 valuation. During the next two years to December 31, 1947, land and buildings were disposed of at Toronto, offsetting the acquisition of some plant and equipment, with the result that there was a net decrease of \$64,000 in the original cost of land, and another of \$136,000 in the net cost of buildings, plant and equipment. The total depreciated value of all fixed assets of the two companies fell by \$148,000 to \$531,000. Between 1947 and December 31, 1949, additions were made to buildings both at Toronto and Winnipeg at a total cost of \$68,000; and at Winnipeg additional machinery and equipment was acquired, the result being an increase of \$111,000 in the valuation of all such machinery and equipment. After depreciation the total increase in fixed assets at the two companies aggregated \$604,000, the change being an increase of \$73,000. Substantial acquisitions took place in the next period at the high prices of 1950-1952. The cost value of land and buildings increased by \$39,000 and plant and equipment at cost went up by \$259,000. At the end of 1952, the depreciated value of all fixed assets aggregated \$662,000. Then in 1953, the Calgary plant of HILTON was set up, and was principally responsible for the addition at cost of \$27,000 in land, \$436,000 in buildings and \$286,000 in plant and equipment. Total fixed assets after depreciation for the two companies now totalled \$1,271,000, and this was roughly what HINDE & DAUCH bought.

268. As can be seen from the above recital, if the \$1,700,000 excess cost to HINDE & DAUCH, or any substantial part of it, were to be considered as having arisen from actual appreciation of fixed assets, it would have to be the result largely of appreciation of those assets purchased before 1949. Practically all these were in fact acquired long before 1939 and had substantially depreciated. The figures do not indicate that the price paid was based on appreciation in the value of tangible assets. The real basis of the valuation was that given by W.H. Palm in evidence:

Q. What was your reason for thinking it was worth \$4 million?

A. Because we thought it was a good investment.

Q. On what basis?

A. On the basis of the return that it would give us.

Q. The return on investment do you mean?

A. That is correct.'

(Evidence p. 6455)

This was part of Mr. Palm's evidence on this subject, which begins at page 6451 and continues to page 6456. It includes his evidence that after acquiring CORRUGATED PAPER BOX, that company's operations were 'eventually' concentrated in the new HINDE & DAUCH plant at Etobicoke and the equipment was dispersed to other HINDE & DAUCH plants.

269. J.A. Whealy, President of CORRUGATED PAPER BOX at the time of the sale, testified that the plant had been brought right up-to-date and kept that way and that plans were underway for its extension. In addition to HINDE & DAUCH he said that DRYDEN and Richmond Paper were also bidding for the company. He thought that he had made a very advantageous sale. He personally entered into a covenant with HINDE & DAUCH not to engage in the folding carton or corrugated business in Canada for ten years. He also stated that the negotiations began about March 1954. This evidence is at pages 4731 to 4735 of the transcript.

270. An additional factor of importance in connection with the acquisition by HINDE & DAUCH of both MARTIN-HEWITT and of CORRUGATED PAPER BOX is the fact that both companies had relied principally on HINDE & DAUCH for their supplies of board. . . ."

(Statement of Evidence, Vol. IV, pp. 852-55)

With respect to the acquisition of Corrugated Paper Box by Hinde & Dauch the Director alleged that potential competition between the companies was eliminated and that Hinde & Dauch's share of the container business was further increased. The sales of Corrugated Paper Box represented 3.6 per cent of the production by Ontario-Quebec plants while its subsidiary, Hilton, had 32 per cent of the output in the Prairie Provinces. The Director also alleged that the purchase price, being greatly in excess of the value of physical assets acquired, saddled the enterprise with unduly high overhead costs. It was further alleged that the productive facilities of Corrugated Paper Box were dismantled and removed at a time when the industry was expanding to meet a growing demand for shipping containers.



## 2. Consideration of Allegations

The considerations which have been applied in the case of the acquisitions dealt with in preceding chapters lead the Commission to conclude that the relationship between the valuation of physical assets and the purchase price cannot be relied upon to establish that an unduly high price was paid. It is true that in the case of the Toronto operations of Corrugated Paper Box the record of subsequent earnings cannot be drawn upon to see what revenues were obtained from the properties acquired because the plant of Corrugated Paper Box was dismantled and operations were combined in a new plant of Hinde & Dauch in Etobicoke. Nevertheless in view of the analysis made earlier as to the manner in which the price level of containers was established the Commission does not consider that the purchase price paid by Hinde & Dauch would be likely to create further upward pressure on the prices of containers.

Another aspect of some significance, referred to in the Statement of Evidence, is that there was competition among several companies to purchase Corrugated Paper Box. This is simply an additional factor which indicates that Corrugated Paper Box must have been a particularly valuable enterprise, or, alternatively, that, even if not an outstandingly good prospect, it was attractive to other paper companies. The fact that several companies were bidding for it may also have had some influence on the price paid.

This acquisition, of course, increased the influence of Hinde & Dauch in the market for shipping containers. In 1948 Corrugated Paper Box had produced 5.41 per cent of the total production of shipping containers in the Central Provinces. By 1954, however, this had fallen to 3.63 per cent. Although the acquisition undoubtedly added to Hinde & Dauch's already considerable weight in the industry, that addition was significant for its part in the cumulative effect of acquisitions rather than in itself.

Another element of detriment arising out of this acquisition is that it represented the disappearance of still another independent producer of shipping containers, and to that extent further narrowed the market for board which might have been produced by any companies which might contemplate entering into the production of board.



## CHAPTER XXI

### ST. LAWRENCE'S ACQUISITION OF HINDE & DAUCH

#### 1. Method of Acquisition and Position Taken by Director

The acquisition of Hinde & Dauch by St. Lawrence is described in the Statement of Evidence as follows:

"285. A return of information from ST. LAWRENCE was obtained in connection with this merger. It establishes that ST. LAWRENCE became the only major shareholder of HINDE & DAUCH on June 1, 1959, holding 189,964 shares out of 360,000 outstanding. The next largest shareholder held only 15,000 shares and the remainder were distributed among 830 others whose holdings ranged from one share to 12,625. The new board of directors includes the principal officers and directors of ST. LAWRENCE, who are also the Vice-President and directors of Argus Corporation. Pertinent financial details taken from the published balance sheets of the two companies and listed in The Financial Post Survey of Industrials show the following picture in respect of their 1958 position:

	<u>Net Sales</u>	<u>Fixed Assets, Depreciated Value</u>
ST. LAWRENCE	\$70 million	\$44 million
HINDE & DAUCH	32 "	12 "

In respect of containerboard and shipping containers, the merger results in high concentration. The two companies combined made 45 per cent of the total industry shipments of containerboard in 1954. It brings under ST. LAWRENCE's management the shipping container business of HINDE & DAUCH, which in 1958 shipped 1,268,000 thousand square feet of containers, being 30 per cent of all shipments by plants east of Winnipeg."

(Statement of Evidence, Vol. IV, p. 859)

In addition to increased concentration resulting from the acquisition the Director also alleged the following result:

"The merger resulted in the elimination of the last significant manufacturer of containerboard not also engaged in the conversion of shipping containers, thus leaving no important and independent domestic source of supply for independent converters in Eastern Canada."

(Statement of Evidence, Vol. IV, p. 904)

## 2. Consideration of Allegations

The acquisition of Hinde & Dauch, already an integrated producer of boards and boxes, by St. Lawrence meant that the sole producer of board of major size, which hitherto had lacked a converting operation, now became an integrated firm. It would appear that this move was made in order to guarantee a market for a large percentage of the production of board of St. Lawrence. It will be recalled from previous chapters of this report that Canadian Wirebound had been St. Lawrence's leading purchaser of board, but that Canadian Wirebound had been acquired by Bathurst in 1954. However, effective January 1, 1955, Bathurst entered into a contract with St. Lawrence for the supply of board up to December 31, 1958. The contract was subject to automatic renewal unless 30 months' notice of termination should be given.

The effects of the acquisition of Hinde & Dauch by St. Lawrence in increasing concentration in the industry and in limiting the opportunities for independent board manufacturers to find a market or for independent container manufacturers to find a non-integrated supplier of board are similar to those which have been discussed in connection with other acquisitions. The fact that St. Lawrence has as a subsidiary this major producer of shipping containers would give grounds for fear on the part of an independent container manufacturer that, if in the future a shortage of board should arise, first consideration would be given to Hinde & Dauch by St. Lawrence.

Against the foregoing consideration it might be said that the acquisition did not have a very radical effect upon conditions affecting the supply of board because St. Lawrence was already a major supplier of board to Hinde & Dauch and, in fact, had had a contract with the latter for a ten-year period up to December 31, 1957. The fact that the contract had expired at the end of 1957 may very well have given St. Lawrence additional motivation for acquiring its new subsidiary. It was demonstrated in previous parts of this report that the board market was a very narrow one, providing few, if any, opportunities for customers to shop around among alternative suppliers with any prospect of success but this consideration does not fully describe the situation in this case. Hinde & Dauch, an integrated producer, could conceivably, if it had chosen to do so, have arranged for a supply of board from some

other board mill, or even have gone into the production of kraft itself, although this would have been a major new step. It could also have increased its production of jute board, although the latter move might not have been expedient in view of the increased use of kraft. Nevertheless, the acquisition of Hinde & Dauch by St. Lawrence closed off any of these possibilities and gave St. Lawrence a captive market for a considerable proportion of its output. There is no doubt that this would tend to lessen the possibility of competition in the board market.

Notice should also be taken of the very high proportion of the production of containerboard in Canada, which came under the control of St. Lawrence as a result of this acquisition, because of the position of Hinde & Dauch as a producer of board. The combined domestic shipments of St. Lawrence and Hinde & Dauch represented almost 40 per cent of the total of all mills in 1959. Such a high concentration of productive capacity in the hands of one firm would give that firm a great deal of influence in the pricing of board, even in the absence of any understanding between the board mills.

On the other hand, the analysis presented in connection with Bathurst's acquisition of Shipping Containers also has an application here - that is the consideration that having acquired a subsidiary in the converting field, and presumably wanting it to be profitable, St. Lawrence might reasonably be presumed to have an interest in not squeezing the last dollar out of board sales to Hinde & Dauch, assuming that shipping container prices were already close to the level of prices of landed American boxes. The same considerations would not apply, of course, to St. Lawrence's board sales to independent corrugators, and in fact there might well arise a conflict of interest between its subsidiary, Hinde & Dauch, and its independent customers, in respect of the pricing of board as well as in the allocation of board supplies in the case of any future shortage.

## CHAPTER XXII

### PACIFIC MILLS' ACQUISITION OF CANADIAN BOXES

#### 1. Method of Acquisition and Position Taken by Director

In February, 1945 Pacific Mills acquired Canadian Boxes for a price of \$900,000 (Crown Zellerbach's Return of Information of November 2, 1956). This acquisition was brought about by the purchase by Pacific Mills of all the outstanding shares of Canadian Boxes.

With regard to the assets purchased the Statement of Evidence has the following to say:

"230. As at July 31, 1944, the fixed assets of CANADIAN BOXES had a book value of \$88,798.77, having been depreciated over the years from their original cost of \$349,785.98. The total net worth of the company was \$379,232.08. In February 1945, at the time of the purchase by PACIFIC MILLS the fixed assets were re-appraised and written up to a new book value of \$272,935.29. As a result the total net worth of the company was shown in the balance sheet as at April 30, 1945, at \$610,296.85, of which \$153,760.89 was surplus arising from the appreciation of fixed assets."

(Statement of Evidence, Vol. IV, p. 839)

Mr. John Martin of Martin Paper, after a visit with Mr. Paul E. Cooper, then President of Pacific Mills, wrote to R.L. Weldon of Bathurst on May 8, 1945 in part as follows:

" . . .

Had a splendid understanding & a very good plan with your friend Mr. Cooper, his position with the Pacific Mills & also control of their latest purchase The Canadian Box Co. was to the sellers a very profitable one, Cash \$900,000 was to my mind as well as to Mr. Cooper very much more than its worth, but they have received a running established plant that will give the Pacific Mills tonnage, the Canadian Box Co. leave behind them a very bad taste in the mouths of the buying public but confident Cooper in time will correct all this. In fact it took considerable time & strength out of me to prove to Mr. Cooper that established prices in Alberta should be



continued, they convinced their manager, so that's that. . . ."

(Serials A27198-201 BAN)

The evidence of Mr. Cooper with respect to the acquisition and price paid was in part as follows:

"Q. Don't you remember what your opinions were about this transaction, whether they were as Mr. Martin was stating they were, that the price was very high?

A. I don't think that is right.

Q. More than it was worth?

A. I don't think that is right.

Q. Well, why don't you think it was right?

A. Well, from what we paid for the company and the result of the operation since that date, certainly looking backward it was a good purchase.

Q. So that your opinion, that it was a good purchase is based upon the return you obtained on your investment?

A. I would say so."

(Evidence pp. 3625-26)

The Director points out in the Statement of Evidence that Pacific Mills, in acquiring Canadian Boxes, established itself as the sole producer in British Columbia of corrugated and solid fibreboard shipping containers and of shipping case materials. It remained in this position until Martin Paper built its plant in New Westminster in 1955.

The following opinion is also expressed by the Director:

"233. It would appear from the foregoing facts that PACIFIC MILLS paid a large sum of money in excess of the intrinsic value of the property for the privilege of obtaining a monopoly position. That it also intended to exploit this monopoly position appears from a memorandum written later by H.C. Pim, the Sales Manager of PACIFIC MILLS, shortly before the CONTAINER STATISTICS Ready Reckoner was taken into use. The memorandum, dated April 28, 1948, instructed the CANADIAN BOXES personnel that the mark-up over the manual costs was designed to yield a net profit of



\$15,000 per month (Serials 24391-3 PML). On an annual basis such a net profit of \$180,000 represents 20 per cent on the investment of \$900,000. The net profit actually realized in the year ending April 30, 1949, was \$209,000, or 23 per cent of the original investment. On the basis of the net worth of the company as shown by its own books at the beginning of the fiscal year, the net profit realized was about 28 per cent.

. . ."

(Statement of Evidence, Vol. IV, p. 840)

The Statement of Evidence contains the following allegations with respect to the acquisition of Canadian Boxes by Crown Zellerbach (Pacific Mills):

- "1. The creation of a monopoly in the manufacture of shipping containers in British Columbia.
2. The purchase price was greatly in excess of the value of the physical assets acquired and its effect was to saddle the newly-acquired enterprise with unjustifiably high overhead costs which contributed to the enhanced prices for shipping containers charged to buyers in British Columbia.
3. The resultant monopoly was exploited for many years by the charging of monopoly prices, the earning of excessive profits and the failure to keep pace with technical progress in the industry. The last-named failure is found in such matters as the continued non-production of .025 liner, and the shipping containers manufactured therefrom, which grades were standard throughout the rest of Canada and the United States; the continued adherence to two grades of liner, instead of a variety of grades as were standard in the United States; and continued emphasis on the production of solid fibreboard shipping containers largely superseded elsewhere."

(Statement of Evidence, Vol. IV, p. 902)

2. Evidence as to Position of Pacific Mills  
and Results of Acquisition

The positions of the two companies prior to Pacific Mills' acquisition of Canadian Boxes may be described as follows. Canadian Boxes was engaged in the manufacture of corrugated shipping containers, but did not manufacture solid fibreboard containers and did not have

the equipment with which to make them (Vancouver Hearing, p. 176). On the other hand, Pacific Mills did not manufacture any corrugated shipping containers until it acquired Canadian Boxes. It did, however, manufacture solid fibre shipping containers and had done so prior to 1939 (Vancouver Hearing, pp. 180-81). Pacific Mills was the sole producer of linerboard on the Pacific coast at the time of the acquisition, if one excepts the very minor, almost insignificant, amounts of board made from time to time by Sidney Roofing. At this time Canadian Boxes was buying all its requirements of linerboard from Pacific Mills, again with the exception of very small quantities of jute board from Sidney Roofing. The latter was cylinder board, but Pacific Mills was the only source of kraft fourdrinier board (Vancouver Hearing, pp. 177-78).

It appears that solid fibre containers sold by Pacific Mills prior to the acquisition were sold largely to the fish packing industry, the latter industry possibly taking 65 to 75 per cent of the total (Vancouver Hearing, pp. 181-82). Solid fibre containers are still made by Pacific Mills. Mr. R. Gourlay, Manager of Converted Products, Crown Zellerbach, stated that the manufacture of solid fibreboard provided an outlet for the utilization of knots, slivers and impurities screened out of the kraft pulp. It was also stated by Mr. Gourlay that the use of this material, which was waste as far as the kraft process was concerned, resulted in a lower cost of other grades, inasmuch as the rejection of this screened material completely would necessitate the use of virgin pulp in making mill wrapper and core paper. The utilization of this forest waste, he asserted, made for fuller utilization of the tree (Vancouver Hearing, pp. 236-37). Mr. Gourlay believed, however, that the production of solid fibreboard in recent years by Pacific Mills was only about 300 to 500 tons per year (Vancouver Hearing, pp. 239-40).

The following account of Pacific Mills' reasons for acquiring Canadian Boxes can be pieced together from the oral evidence. Mr. Paul Cooper, testifying about the acquisition and its effects said:

"Q. Can you tell us what the purpose of Pacific Mills was in buying that company?

A. Oh, I would judge it has been our policy to completely integrate our whole operation from the growing of trees and making of pulp, making of paper and the integrating of our product. It is nothing new for us to be in that game and see about another subsidiary for the selling of our product.

Q. When you did buy the company were you then the only company producing corrugated boxes and solid fibre-board boxes in British Columbia?

A. That is right."

(Evidence, p. 3623)

Mr. J.A. Young, a Director of Crown Zellerbach Canada Limited, testified that Pacific Mills had begun the manufacture of kraft products, including linerboard, corrugating medium, and heavyweight kraft paper even before the mid-30's (Vancouver Hearing, p. 174). Prior to the mid-30's Pacific Mills had a machine known as No. 4 for kraft products. It had a capacity of about 45 tons a day (equals approximately 13,500 tons per year) (Vancouver Hearing, p. 185). Around the mid-30's Pacific Mills converted its No. 3 Fourdrinier machine to the manufacture of kraft products, the primary reason for this being that the No. 3 machine because of its size, age, and other mechanical features, had become an extremely inefficient machine for the manufacture of newsprint. This increased the manufacturing capacity of Pacific Mills by something in the order of 18,000 tons per year. After the conversion of machine No. 3, machine No. 4 was continued in the production of kraft products of lighter weight. No. 3 machine was continued in operation as long as Mr. Young remained with the company. At the time of the Vancouver hearing the capacity was of the order of 33,000 tons per year (Vancouver Hearing, pp. 174, 181, 185-86).

In order to find markets for this additional output of kraft, Pacific Mills entered into the manufacture of solid fibre board, and into the market for solid fibre shipping containers. They also began to find an outlet for their containerboard by selling to Canadian Boxes, which prior to that time had acquired their supplies from Eastern Canada and the southern United States, and from some other foreign countries (Vancouver Hearing, pp. 175-76). Eventually Canadian Boxes got their entire requirements of liner and corrugating medium from Pacific Mills (Vancouver Hearing, p. 176).

In addition to the foregoing reasons it was asserted by Mr. Young that integration was necessary to profitable operation:

"Q. What was [sic] the reasons that prompted Pacific Mills to acquire Canadian Boxes?

A. By that time we were shipping substantial tonnage to that company and also in line with our policy of manufacturing our own paper products into their end use, we felt that we should get into the corrugated business, and started negotiations with them.

Q. What in turn was [sic] the reasons behind the policy of manufacturing products to their end use?

A. I suppose it was the general economic conditions and the pressure in the integration of our affairs. It seemed it was an economic step because competition was such there wasn't room in the long run for profits if you cut the operation into stages.

Q. Was the factor of diversification of any importance to you?

A. Yes, that was another one of the reasons."

(Vancouver Hearing, p. 177)

Questions by a Member of the Commission, however, brought out that Mr. Young really had no knowledge of what profit there was at the converting stage:

"MR. WHITELEY:

Q. Mr. Young, you said at one point that the reason for integration was the competition in the industry was such there wasn't room for profit at various stages?

A. That is right.

Q. How would you know what profit there was at the converting stage?

A. I did not know specifically and when we make that statement we make it in general terms. I said that type of integration was the policy of our company. For example, grades of paper made on other paper machines, such as tissue grades at one time, and this applies right across Canada, certain products would be made from tissue. A converter would be set up and I am assuming that if that converter could buy paper from our mill and reconvert it into, say, household tissues, then there must have been a profit in that volume. Because that was a middle step in the end production reaching the market. Now, it has been our policy all through the years to make the end product, which is the policy we applied in the purchase of the Canadian Boxes.

Q. That is somewhat different in saying there wasn't any profit in the converting level?

A. Did I say that?

Q. I took it that way. You said there wasn't room for profit at the various levels of the operation?

A. There might have been. It is the general economic situation.



Q. You had no knowledge what the profit, if any, was at the converting level of this particular product?

A. Not specifically."

(Vancouver Hearing, pp. 183-84)

With regard to the process of acquiring Canadian Boxes, Mr. Young testified that negotiations were carried on by himself and Mr. Jack McDonald, then President of Canadian Boxes. These negotiations stretched over four or five months and were conducted at arms length. Mr. Young thought at the time the price paid was high, but has since changed his mind (Vancouver Hearing, pp. 178-79).

Since the acquisition Pacific Mills has continued to supply Canadian Boxes with all its requirements of board (Vancouver Hearing, p. 179).

Mr. Young testified that in the latter part of 1951, when there was a strike in the Canadian Boxes' plant for approximately three months, Canadian Boxes purchased boxes in Eastern Canada and the United States, brought them in and used them to supply their customers' requirements. He testified that after this the United States manufacturers became quite active competitors (Vancouver Hearing, p. 180).

Certain evidence was presented at the Vancouver hearing with relation to the prices charged by Pacific Mills to Canadian Boxes for linerboard (Exhibits VH-7 - VH-14). The general import of these exhibits can be described briefly. Exhibit VH-7 is a graph for the period 1939-1955 indicating the trend of prices charged to Canadian Boxes for liner and corrugating medium. Exhibit VH-8 is substantially the same thing. Exhibits VH-9 to VH-13 are graphs showing the trend of prices of various kraft products sold by Pacific Mills to several customers. These are respectively:

VH-9	Price of "M.F. KRAFT BAG" to BARTRAM
VH-10	" " "M.F. " " " to CANADIAN BEMIS
VH-11	" " "M.F. " " " UP TO 29#" to WESTMINSTER PA
VH-12	" " "CEMENT BAG KRAFT" to ST. REGIS
VH-13	" " "CARTRIDGE MANILLA" to C.I.L.

These are graphs of prices in dollars per ton. The graphs were presented by counsel for Canadian Boxes and Pacific Mills to indicate that the general trend of the prices on other kraft products was the same as the trend of prices in liner and corrugating medium. Exhibit VH-14, which is a graph of basic wage increases, was introduced for the purpose of showing that the increase in prices of kraft products, including liner and corrugating medium, follows the same general upward trend as the basic wages paid.

The following table indicates the prices at mid-1939 and mid-1955 of the various products dealt with in Exhibits VH-7 - VH-13 as read off the graphs presented in these exhibits. The basic wages in dollars per hour read from Exhibit VH-14 are also included. Certainly the most significant feature of this table is the fact that the percentage increase in the price of linerboard and corrugating medium from mid-1939 to mid-1955 was larger than the increase in price for any of the other products listed, and often by substantial numbers of percentage points.

Table 24

Prices of Pacific Mills' Products, 1939 and 1955

	<u>Mid-1939</u>	<u>Mid-1955</u>	<u>% Increase</u>
	\$ Per Ton	\$ Per Ton	
Linerboard	51.25	141.00	175.1
Corrugating medium	45.00	136.25	202.8
M. F. Kraft Bag			
- Bartram	101.00	N.A.	
- Bemis	100.00 (1941)	196.00	96.0
M. F. Kraft Bag up to 29#			
- Westminster Paper	81.00	209.00 (1954)	158.0
Cement Bag Kraft			
- St. Regis	68.00	166.00	144.1
Cartridge Manilla			
- C.I.L.	103.17	212.50	106.0
Basic Wages (B.C.)			
(\$ per hour)	0.45	1.47	226.7

SOURCES: Exhibits VH-7 to VH-14 inclusive.

Certain information on the investment and earnings of Canadian Boxes was presented in Exhibit VH-21. In Table 25 the columns with headings "Retained Earnings" and "Earnings" have been taken from Exhibit VH-21. The column entitled "Cumulative Investment" has been made up by adding to the purchase price of \$900,000 paid by Pacific Mills for Canadian Boxes the investment of "Retained Earnings" shown in the previous column. The column headed "Rate of Return" is the percentage relationship between "Earnings" and "Cumulative Investment".

The actual procedure followed in Exhibit VH-21 differs from that followed in preparing Table 25, in that the cumulative investment has been adjusted by means of a price index compiled by the Dominion Bureau of Statistics and published in "Price & Price Indexes", 1945-53.

The particular index used is the wholesale price index for products "Fully and Chiefly Manufactured", basis 1935-1939 = 100. The actual investment in the company as shown by the original investment plus retained earnings is then increased by the percentage rise in this index from one year to the next. The investment of the company as shown in Exhibit VH-21 is, thus, increased above the actual figures shown in Table 25. This is in the Commission's opinion a wholly inadmissible method of calculating investment.

The matter at issue in Exhibit VH-21 and in Table 25 of this report is or should be what rate of return was realized on the actual number of dollars which were invested in Canadian Boxes. The actual cumulative dollar investment made by Pacific Mills in Canadian Boxes in any given year consists of the sum of the initial purchase price of \$900,000 and the actual portion of Canadian Boxes's earnings retained in that company and not paid out in dividends in 1945 and in each succeeding year up to and including the year being considered. These sums, one for each year of the period under discussion, constitute the cumulative investment made in Canadian Boxes. The inflation of each of these sums by means of a price index which is intended to indicate the movement of the prices of certain goods over the period with which Exhibit VH-21 is concerned does not yield figures indicating the money actually invested. The application of an appropriate price index to figures on the value of physical assets may possibly give some rough indication of the current value or cost of replacement of certain of the physical assets in which the original purchase price and retained earnings were invested, although even for this purpose the method undoubtedly is inferior to that of periodic reappraisal of the assets by experts in this field. Whatever limited usefulness these figures may have for business planning and decision, they do not measure the amount of the dollar investment actually made and in the Commission's opinion cannot properly be used for the calculation of a rate of return.

Table 25

Canadian Boxes: Investments and Earnings

<u>Year</u>	<u>Retained Earnings</u>	<u>Cumulative Investment</u>	<u>Earnings</u>	<u>Rate of Return</u>
1945	16,190	916,190 <sup>(1)</sup>	105,833 <sup>(2)</sup>	11.55
1946	27,143	943,333	180,391	19.12
1947	105,391	1,048,724	133,404	12.72
1948	70,904	1,119,628	209,061	18.67
1949	87,180	1,206,808	230,547	19.10
1950	30,547	1,237,355	341,153	27.57
1951	15,807	1,253,162	203,186	16.21
1952	-16,814	1,236,348	211,430	17.10
1953	- 8,570	1,227,778	200,387	16.32

---

(1) Including the purchase price of \$900,000.

(2) \$89,643 plus \$16,190, the latter being the figure  
for the period February 14, 1945, to April 30,  
1945.

Source: Exhibit VH-21



Financial data was presented in Exhibit VH-20, from which the following material has been extracted:

Table 26

Canadian Boxes: Profits before Income Tax, and  
Certain Expenses, as Percentages of Value of Sales

<u>Year</u>	<u>Selling Expenses</u>	<u>Administrative Expenses</u>	<u>Profit Before Income Tax</u>
1938	1.34	5.04	18.87
1939	1.67	5.21	20.75
1940	2.46	5.22	22.39
1941	2.04	5.47	25.02
1942	1.75	4.15	29.49
1943	1.77	3.90	28.60
1944	1.42	3.24	28.32
1945	1.36	3.23	26.32
1946	1.28	2.58	14.54
1947	1.12	2.05	17.39
1948	1.18	2.24	9.86
1949	1.15	1.77	12.60
1950	1.10	1.61	12.14
1951	1.07	1.43	15.13
1952	1.73	2.19	14.17
1953	1.59	1.82	12.07
1954	1.50	1.70	9.41

Source: Exhibit VH-20.

The percentages in the above table indicate that the burden of administrative expenses on product sales of Canadian Boxes was substantially lower after acquisition by Pacific Mills than it was before. Profits before income tax after acquisition by Pacific Mills also appear to have been lower than prior to acquisition. Selling expenses as a percentage of sales were for a number of years after 1945 lower than in the years 1939-45, but rose considerably thereafter.

The foregoing table may be considered in conjunction with the evidence of Mr. J.M. Moynes, a chartered accountant with the firm of Helliwell, MacLachlan & Company in Vancouver. Mr. Moynes testified as follows:

"Q. . . . Now, would you explain why you say the company was not saddled with unjustifiably high overhead costs and explain what costs were imposed upon them?

A. The only changes that occurred, far as overhead is concerned, is that after Pacific Mills acquired Canadian Boxes, in the following year they instigated a charge for facilities of Six Thousand Dollars per year, which is not at all large in view of the volume of business. At the same time, the salaries paid to some of the people who had been the previous owners was [sic] discontinued and they were not replaced and this service from the parent company replacing it and those salaries exceeded by quite a bit the Six Thousand Dollar service charge and then there were certain charges made for engineer facilities and those ranged approximately from about One Thousand Dollars to about Three Thousand Dollars from 1945 to 1955 and to the best of my knowledge and I am confident, there was [sic] no other charges made."

(Vancouver Hearing, p. 212)

Some evidence was brought forward at the Vancouver hearings on the question of whether the price paid by Pacific Mills for Canadian Boxes could be considered excessive. Certain evidence was presented by Mr. Moynes, on the relationship between the earnings per share and the market price per share of five United States companies producing containers and like products. The book value per share and the price-earnings ratio were also presented. These data are as follows:

"Value Line Survey reports on five companies producing  
containers and like products. 1946

	Per Share		Earnings	Price/ Ratio
	Book Value	Market Price		
Container Corporation	3.70	4.46	.72	6.2
Fibreboard Paper	13.82	23.95	.58	41.3
K.V.P. Sutherland	15.67	22.23	2.34	9.5
Lily & Tulip	2.92	4.83	.34	14.2
Standard Packaging	1.05	10.61	.35	30.3
Average	7.43		.87	20.3
Average - omitting Fibreboard	5.84		.94	15.1"

(Exhibit VH-18)

These data apply to the year 1946. The average price-earnings ratio, if that for fibreboard paper is omitted from the calculation of the average, is 15.1.

Exhibit VH-17 presented data on the prices and earnings per share of 13 prominent Canadian companies, the prices being those of February 15, 1945, and the earnings those of 1944. The price-earnings ratios varied from 3.6 to 23.3, and averaged 15.1. Exhibit VH-17 went on to calculate the price of Canadian Boxes which would have resulted from the use of a price-earnings ratio of 15.1 in relation to the profits of Canadian Boxes for three different periods, the first being those for 1944, the second being the average for the years 1942-44, and the third being the average profits for the years 1940-44. In every case the hypothetical price came to over \$1,000,000.

Certain evidence was also given at the Vancouver hearings with respect to the question of the non-production of .025 linerboard. Mr. R. Gourlay, manager of converted products for Crown Zellerbach testified that the maximum caliper of linerboard used on the Fourdrinier machine at Ocean Falls was .023. He testified that the reason for the company's not producing .025 liner was that the market for it was too limited to permit its economical production (Vancouver Hearing, p. 233-3)

He testified that the results desired by the customer could be attained by laminating together lighter liners (Vancouver Hearing, p. 234). Under cross-examination, however, Mr. Gourlay testified that the company manufactured to weight specifications only. His further testimony was as follows:

"Q. Isn't it inevitable when you make, say, a 42# liner that you arrive at a caliper of approximately 12 points?

A. That is basically true.

Q. In that sense, is there a weight specified in the freight classification that would give you a liner of approximately 25 points?

A. There might be. I would not know today.

Q. What do you think of the 69# liner as being in terms of caliper?

A. In retrospect, looking back, I would say 22 to 23.

Q. What about 90#?

A. I just don't know.

Q. Would you be prepared to say that some 69# liners could not be calipered out at 25 points?

A. No, I would not be prepared to say that."

(Vancouver Hearing, p. 238)

### 3. Consideration of Allegations

There is no reason why the price at which a corporation is purchased should be equal to its net worth: there are many reasons for thinking that it should not be, as explained in a previous chapter. A rational criterion for purchase is the expected rate of return to be realized on a given investment. This may be expressed as the ratio of purchase price to earnings, the latter being either past or future. In the present case the purchase price was not excessive on the basis of this criterion, for the price-earnings ratio was in line with the average of those calculated for share prices and earnings of American companies in the same general type of manufacture as well as the same ratios for a number of Canadian companies in various other industries.

The purchase price paid by Pacific Mills could not have resulted in any burden of overhead which in turn would result in the charging of higher prices by Canadian Boxes. If any evidence were required on this point, the financial data from the exhibits (see above) and the oral testimony of Mr. J.M. Moynes provides it (Vancouver Hearing, pp. 212-13). The exhibits show that overhead costs in relation to sales were reduced after the acquisition, and the testimony of Mr. Moynes indicates some of the specific ways in which this was done.

The evidence shows that for some time prior to World War II Canadian Boxes had secured virtually all its requirements of board from Pacific Mills, having forsaken its former suppliers (in Eastern Canada and the Southern United States) to do so. It is hardly credible that the firm did so unless there was some advantage in making the switch. A minimum assumption is that Pacific Mills at least matched the other suppliers' prices. For our purpose we need not pay much attention to the wartime period, as economic activity was regulated and controlled and sources of supply were often the result of administrative fiat rather than of market forces. But whether we include the wartime period or not, it is clear that Pacific Mills had been virtually the sole source of supply for Canadian Boxes for some time. Thus its acquisition by Pacific Mills hardly changed anything in this regard. The acquisition, however, may have had an effect on the possible establishment of new container entrants who might be reluctant to enter a market where the sole source of supply locally was committed to supplying its own converting operations. This may have had some relation to the fact that when Martin Paper began operating a container plant in New Westminster, B.C., it first secured supplies of board from the United States and Eastern Canada.

To the argument that Canadian Boxes was not, after acquisition able to shop around for supplies of board from alternative sources, and that this made it possible for Pacific Mills to charge its subsidiary unreasonably high prices for board, there are two offsetting considerations. Firstly, the board market in Canada, as had been demonstrated in previous chapters, was so narrow that a converting firm's ability to shop around was almost non-existent, at least until 1954. Secondly, as regards buying board from abroad, the supposed detriment arising from the elimination of this alternative would be countered by the obvious interest of Pacific Mills in the profitable operation of its subsidiary. If board prices rose too much, box prices would rise above the ceiling set by the cost, laid down, of imported American boxes, and the imminent prospect of loss of business would, in turn, force Canadian Boxes to reduce its prices, thus reducing the profitability of its operations.

The governing factor in pricing of board and boxes was the arrangement between the companies associated with Container Statistics or Mr. F.C. Hayes, modified by the threat of American competition, actual or potential. That the prices of corrugated boxes in British



Columbia were higher in the absence of American competition (up to 1951) than in other parts of Canada is true. The exhibits (VH-7 - 14) show that the rise in Pacific Mills' prices of liner and corrugating medium from 1939 to 1955 was greater than in other kraft products. The unreasonable pricing charge, therefore, may be valid for part of the period at least; but if so, in our opinion this price level was the result, not of the acquisition, but of the price arrangements under Container Statistics and Canadian Boxes' position as the sole manufacturer in British Columbia.

It is very difficult to conclude that any detriment flows from Crown Zellerbach's failure to produce and supply .025 liner. Converters wishing to acquire supplies of it are free to import them from the United States. If Crown Zellerbach produced .025 liner, it would undoubtedly sell it at prices determined by the delivered prices of American imports of this caliper. It is difficult to see how Crown Zellerbach could sell the substitute laminated board at a price which would exceed that of the imported .025 liner.

If it is suggested that a converter who chose to import would have to pay a premium price because he consumes small quantities, the obvious reply is that he would be just as likely, or more so, to be forced to pay similar premiums to Crown Zellerbach.

## CHAPTER XXIII

### MARTIN PAPER'S ACQUISITION OF CANADIAN WESTERN BOX

#### 1. Method of Acquisition and Position Taken by Director

The circumstances of the acquisition of Canadian Western Box by Martin Paper are described in the Statement of Evidence as follows:

"234. MARTIN PAPER's return of information (Exhibit 43) did not show this acquisition, but its Secretary, Sidney J. Cooper, gave evidence about it. It took place on December 1, 1947, by purchase of the assets and assumption of the liabilities. The company was then wound up and the plant became the Calgary branch of MARTIN PAPER (Evidence pp.2589-90).

235. The President of Canadian Western Box before the acquisition was Benjamin Hatskin, of Winnipeg, who was one of the witnesses. He testified, at pages 3124-31, that Canadian Western Box had been in operation less than one year when it was sold to MARTIN PAPER. The company had been established for the purpose of making corrugated shipping containers and was located in Calgary. Much of the equipment was purchased at second hand 'from all over the States'. Its board supplies were obtained from ST. LAWRENCE and it was informed that prices paid for the board were the same as those applicable to other corrugators. In fact, however, it was being charged prices in excess of the Winnipeg prices plus freight (Serial 8523 MPP). The company had no trouble finding a market for its product and sales had reached about \$50,000 per month at the time of the sale. It encountered competition from MARTIN PAPER, HILTON and CANADIAN BOXES but, said Mr. Hatskin, there was no price war. The company was approached by MARTIN PAPER, to whom it decided to sell after unsuccessfully trying to secure a better bid from PACIFIC MILLS. The exact amount of the purchase price is not in evidence. Mr. Hatskin's recollection was that there had been an initial investment of equity capital to the amount of about \$75,000 and that assistance from the Industrial Development Bank was obtained by way of a loan of \$100,000. After the sale, the loan was repaid and there was a capital gain of 'a hundred and some few thousands' of dollars. A covenant was entered into, unrestricted

geographically, that the vendors would not set up another corrugating plant for ten years.

236. G. A. Holland, at that time MARTIN PAPER's Alberta Sales Representative, was appointed Manager of the Calgary plant as soon as it was acquired (Evidence p.3260). He referred to the plant as 'a pile of junk John Martin had bought' (Evidence p.3269). Mr. Holland had been the general factory superintendent at HYGRADE before joining MARTIN PAPER, by 1954 had become Vice-President and Manager of Martin Paper Products (British Columbia) Limited, and in 1956 was made Vice-President (Sales) for the whole of the MARTIN PAPER organization, including the Calgary and British Columbia units (Evidence pp.3260-1). He also said:

'When we first took over that plant practically all the machinery was very obsolete. The corrugator had a top running speed of 80 feet per minute. It was several years before we managed to put in more efficient machinery which may have had some bearing on our conversion costs.'

(Evidence, p.3316) "

(Statement of Evidence, Vol.IV, pp.840-41)

The Statement of Evidence contains the following allegations with respect to Martin Paper's acquisition of Canadian Western Box:

" . . .

1. Elimination of the only shipping container manufacturer who was independent of the organized industry and a requirement that the organizers of the acquired company abstain from future competition for a period of ten years.
2. Paying the way for price agreement between PACIFIC MILLS and CANADIAN BOXES on the one hand, and MARTIN PAPER and HILTON on the other.
3. The purchase price was greatly in excess of the value of the physical assets acquired and inflated the overhead costs to be borne by users of corrugated shipping containers and, through them, the general public.

. . ."

(Statement of Evidence, Vol.IV, p.903)

## 2. Consideration of Allegations

Although the evidence before the Commission does not contain information as to the profits earned by Canadian Western Box the Commission considers, for the reasons set out in earlier chapters, that evidence as to the value of physical properties is not the determinant of the price of an enterprise when it is sold. Also, for the same reasons which have been given in earlier chapters we do not consider that it can be shown by the evidence that the price Martin Paper paid to acquire Canadian Western Box would tend to enhance the prices of shipping containers.

The effect of the acquisition on the competitive situation, actual and potential, in Western Canada is more apparent. Although Mr. B. Hatskin testified that the competition between Canadian Western Box, Martin Paper, and Hilton did not take the form of a price war (Evidence, pp.3126-27) the following extract, taken from a letter written by D. A. Hindle of Martin Paper to F. C. Hayes on January 2, 1948 indicates that the competition offered by Canadian Western Box did have a price aspect arising from the latter company's method of charging for freight:

"4. All orders for Alberta, both zones are shipped prepaid at the zone prices, regardless of whether orders total a car or not. We had to make this arrangement to meet competition of the Canadian Western Boxes, who were selling any quantity delivered to the customers place either by freight or by truck at the same delivered price.

. . .

We are forwarding also today the signed Agreement that you have been requesting.

We are very anxious to see you out here in the West as we have intimated over the telephone several times and sincerely hope that you will make it as soon as you can."

(Serials 8447-48 MPP)

Although Mr. Hindle wrote this letter after the date on which Martin Paper had acquired Canadian Western Box, it had reference to the pricing situation in existence in the period preceding the acquisition. That pricing basis apparently had been continued as the basis of pricing at the time of writing.

The absorption of Canadian Western Box by Martin Paper

eliminated an independent firm which, during its short existence, had forced a certain modification of the basis of freight charges by Martin Paper on shipments to Alberta. Had Canadian Western Box continued as an independent company and continued to follow an independent pricing policy, it would have been a threat to the price agreement between the other converters on the Prairies. The elimination of Canadian Western Box as an independent company must be judged to have entailed some detriment inasmuch as it facilitated the establishment and maintenance of the price agreement which came into existence with the adoption of the Container Statistics system in the Prairie Provinces.



## CHAPTER XXIV

### POWELL RIVER'S ACQUISITION OF MARTIN PAPER AND SUBSEQUENT SALE OF HALF INTEREST TO MACMILLAN & BLOEDEL

#### 1. Method of Acquisition and Position Taken by Director

As indicated by the heading of this chapter there are two acquisitions in relation to Martin Paper. First, the acquisition of the latter by Powell River and the subsequent sale of a half interest in Martin Paper by Powell River to MacMillan & Bloedel. Since the preparation of the Statement of Evidence by the Director the situation has been affected further by the amalgamation of MacMillan & Bloedel and Powell River under the name of MacMillan, Bloedel and Powell River Limited. The latter development is not referred to in the Statement of Evidence, being subsequent to the period of the inquiry. The Commission, however, must take it as a fact as this was the situation when the Commission hearings were held.

The circumstances of the acquisition of Martin Paper by Powell River and the subsequent sale of one half-interest to MacMillan Bloedel are described in the Statement of Evidence as follows:

"238. MARTIN PAPER was acquired by POWELL RIVER as of April 1954. All its common stock was bought in April and May and shortly thereafter the preferred stock was redeemed. H.S. Foley, Chairman of POWELL RIVER, gave evidence, at pages 3751-86. He stated that his company had first been approached by John Martin, deceased president of MARTIN PAPER, before the last war and asked to engage in a joint venture for the manufacture of corrugated containers in British Columbia, or alternatively, to supply containerboard to MARTIN PAPER to enable it to do so. Nothing came of these negotiations, but the matter was raised again by D. A. Hindle, then President of MARTIN PAPER (since deceased) in the fall of 1953. At this time POWELL RIVER was considering plans to invest surplus funds in a kraft mill in order to diversify its operations. Accordingly, it was decided to investigate the possibility of purchasing MARTIN PAPER, which would provide a market for a major part of the output of the propos

kraft mill. F. H. Brown, a former federal civil servant and then a private business consultant located in Vancouver, investigated the situation on behalf of POWELL RIVER and after the acquisition served as President of MARTIN PAPER for some time. When Mr. Foley gave his evidence, in May 1956, he said that POWELL RIVER had given up its earlier plans to produce kraft because MACMILLAN had got into this field ahead. Mr. Foley stated that his company had not engaged in any discussion with any other pulp and paper producers about the principle of integrating the shipping case and containerboard industry, and that there was never any suggestion from outside the company that POWELL RIVER should acquire MARTIN PAPER. The report of F. H. Brown on his investigation of MARTIN PAPER was tendered in evidence as Exhibit 53. . . . At the time of the acquisition the book value of the equity per common share of MARTIN PAPER was \$251.23 and POWELL RIVER paid \$300 per share (Evidence p.3672)."

(Statement of Evidence, Vol.IV, pp.841-42)

With regard to the acquisition of the 50 per cent interest in Martin Paper by MacMillan & Bloedel, the Statement of Evidence says:

"239. As of March 27, 1959 [sic 1958] POWELL RIVER sold a 50 per cent interest in MARTIN PAPER to MACMILLAN for \$2.5 million (MACMILLAN's Return of Information). At this time, the total book value in POWELL RIVER's accounts of MARTIN PAPER's shares (approximately \$2, 268, 000) was less than POWELL RIVER received from MACMILLAN for half the company. This appears from POWELL RIVER's 1958 Annual Report to the Shareholders, as follows:

Net Proceeds re sale of 50% interest	-	\$2, 530, 834
Profit on sale of 50% interest	-	1, 396, 979
Book Value of 50% interest	-	<u>1, 133, 855</u>
Total Book Value of MARTIN PAPER shares -		<u><u>\$2, 267, 710</u></u>

[The agreement was dated March 27, 1958 but was expressed to be effective as of January 1, 1958]

240. MACMILLAN commenced the production of containerboard, which it makes in all standard grades of kraft liner and corrugating medium, on April 11, 1957. It has sold containerboard not only to MARTIN PAPER but also to HILTON (HINDE & DAUCH). Its price lists have been circulated to CROWN ZELLERBACH as well as its two customers."

(Statement of Evidence, Vol.IV, p.842)

With respect to the acquisition of Martin Paper by Powell River and the subsequent sale of a half interest to MacMillan & Bloedel the following allegations were made by the Director:

"362. . . .

(f) . . .

1. The amount paid by MACMILLAN for its half-interest was greatly in excess of the value of the physical assets represented thereby and the effect was to saddle the enterprise with unduly high overhead costs which had to be borne by the public.
2. The merger permits and an agreement has been reached between POWELL RIVER and MACMILLAN under which MACMILLAN adopts a pricing policy for container-board which recognizes CROWN ZELLERBACH as the price leader. This will be likely to have the same result as if these two companies were parties to a price agreement.
3. The cost of paperboard to MARTIN PAPER has been inflated. This will likely result in a corresponding inflation of the prices of shipping containers in British Columbia and Alberta.
4. Elimination of a non-integrated producer of shipping containers which had demonstrated its capability of independent action by expanding into the British Columbia market, hitherto the monopoly of CROWN ZELLERBACH, and by importing its requirements of board to sustain that venture.

. . . "

(Statement of Evidence, Vol. IV, p.904)

## 2. Review of Evidence Submitted to Commission

At the hearing held by the Commission in Vancouver considerable evidence relating to the acquisition of Martin Paper was presented.

In the course of the Vancouver hearings Mr. R. M. Shaw, formerly President of MacMillan & Bloedel testified that MacMillan & Bloedel were not aware of and had no part in the acquisition of Martin Paper's shares by Powell River or in the construction of Martin Paper's plant in British Columbia (Vancouver Hearing, pp.22-23). On the matter of the purchase price of the shares of Martin Paper in relation to the book value of the equity per common share of Martin Paper, the following

evidence is pertinent.

Mr. G. P. Stirrett of General Appraisal Company, Vancouver, was employed by Martin Paper to do an appraisal of the company in 1957, and he subsequently appraised the plants in New Westminster, British Columbia, St. Boniface, Manitoba, and Edmonton and Calgary, Alberta. Mr. B. E. Bell of the same company testified that the appraisal was done pursuant to his having solicited the work by a general sales letter dated February 6, 1957 (Vancouver Hearing, p.64). Mr. Stirrett testified that he had no knowledge of a possible sale of a half interest to MacMillan & Bloedel by Powell River. He appraised the new replacement value of the Martin Paper plants and calculated that the total depreciated value of them was \$3,908,335.18 (Vancouver Hearing, pp.39-40). He testified that appraisals were generally done for the purpose of maintaining adequate insurance coverage (Vancouver Hearing, p.37).

Mr. W. R. C. Patrick, C. A., of Patrick, McLaughlin Company, Chartered Accountants, of Vancouver testified that if the appraisal values produced by Mr. Stirrett had been substituted for those in the balance sheet the difference between the purchase price paid by MacMillan & Bloedel for a 50 per cent interest in Martin Paper and the equity of the shareholders would have amounted to only \$500,000 (Vancouver Hearing, pp.53-54).

Mr. Patrick introduced Exhibit VH-2 which showed the price-earnings ratios of a number of Canadian companies as of March 31, 1958, the time at which Powell River sold its half interest in Martin Paper to MacMillan. The arithmetic mean of these price-earnings ratios was 13.49 and the median about 12.50. Price-earnings ratio of pulp and paper groups shares was close to the overall median. On the basis of earnings of Martin Paper for 1957 (\$395,000) the price earnings ratio in this transaction would be 12.66 (\$5,000,000 ÷ \$395,000). On the basis of Martin Paper's earnings in 1958 the ratio would be 11 to 1. Thus on the basis of the 1957 earnings the price paid for the 50 per cent interest judged by the price-earnings ratio was quite close to the average for a great number of Canadian companies, and on the basis of the 1958 earnings it was below that average (Vancouver Hearing, pp.52-58). Mr. Patrick testified further that the purchase price never appeared in the books of Martin Paper and could not have entered into overhead costs (Vancouver Hearing, p.61). Mr. Patrick testified under cross-examination that the excess of the appraisal values over book values of all the Martin Paper plants was \$1,700,000 (Vancouver Hearing, pp.68-69).

Powell River acquired Martin Paper as of April, 1954. The New Westminster plant of Martin Paper was completed in 1955, subsequent to the acquisition by Powell River. Mr. G. A. Holland of Martin Paper



testified that the New Westminster operation was planned on the basis of linerboard from Macon and Rome, Georgia, U. S. A., (Mead Board Sales) and corrugating medium from Abitibi, and that in 1955, 90 per cent of the total board for the New Westminster plant had come from those two sources (Evidence, pp.3300-02). Mr. H. S. Foley of Powell River testified that Martin Paper had bought board from Georgia. He claimed that the Mead Board Sales company had to absorb freight in order to sell the board in New Westminster. He was "almost sure" that Martin Paper did not pay any premium over the Canadian prices in order to get this board (Evidence, p.3759).

MacMillan & Bloedel had carried out a gradual expansion of its productive facilities from 1948 onwards. In 1948 the company announced its intention to build a bleached sulphate plant at Nanaimo, British Columbia, and in 1951 authorized the doubling of capacity at the Nanaimo plant. In 1955 the company announced that its existing pulp mill at Port Alberni would be enlarged by the addition of two new mills, one for newsprint, the other for kraft paper and container-board. A kraft machine was ordered on July 9, 1955, and production of kraft was begun in March, 1957 (Vancouver Hearing, pp.16-20).

Mr. R. M. Shaw testified that the kraft machine at Port Alberni was installed in order to fulfil an expansion commitment of the company. A provincial forest management licence obtained by the company required it to expand its facilities to consume the waste products of its sawmills and plywood mills. In 1956 the company announced its intention to build a grocery bag plant on the north arm of the Fraser River to use part of the product of its Port Alberni machine, and in 1958 the company purchased a half interest in Martin Paper (Vancouver Hearing, p.17).

Mr. Shaw testified that before entering into the kraft field MacMillan & Bloedel had had a market survey done by the Stanford Research Institute to assist the company in evaluating the market outlet for its kraft production at Port Alberni. The products considered were kraft paper and paperboard. The survey indicated the probable volume of sales of board and listed the prospective customers, one of the latter being Martin Paper. The survey foresaw the probability that Martin Paper would cease to be a main customer for MacMillan & Bloedel's board because Powell River was expected to start producing board itself (Vancouver Hearing, pp.18-19).

Mr. Shaw also testified as to the details of the acquisition of Martin Paper's stock by MacMillan & Bloedel. The idea of acquiring



an interest in Martin Paper from Powell River had originated at lower levels of the company and arose out of daily contacts with Martin Paper. Gradually the idea worked its way up to the top executive level. Negotiations were opened, but they failed to agree on the price of the shares. Powell River and MacMillan & Bloedel then agreed to have the price of the shares arbitrated by Mr. A. Williamson, a senior officer of Wood, Gundy & Co. Ltd., a large firm of investment dealers. Presumably the price of the shares was the result of this arbitration (Vancouver Hearing, pp.23-24). Mr. Shaw testified that the acquisition was unrelated to any other acquisition taking place elsewhere in Canada at that time or in previous years (Vancouver Hearing, p.25).

Two agreements were entered into between Powell River and MacMillan & Bloedel in connection with the sale of the half interest to the latter by the former. With respect to these agreements the Statement of Evidence says:

"241. There are two agreements in connection with this 'partnership', both dated March 27, 1958, and they are found in the return of information by MACMILLAN. One is between POWELL RIVER and Canadian Transport Company Limited, [a wholly owned subsidiary of MacMillan] and deals with the actual purchase and sale of the shares of MARTIN PAPER, which was retroactive to January 1, 1958. It also provides that while each company shall be equally represented on the Board of Directors of MARTIN PAPER, the President and other officers shall be chosen by POWELL RIVER and management shall be vested in that company, which shall receive a management fee of \$20,000 per annum. The second agreement, between MACMILLAN and POWELL RIVER deals with the supply of containerboard to MARTIN PAPER. POWELL RIVER undertakes under this agreement to cancel MARTIN PAPER'S contracts and obligations for the supply of containerboard from CROWN ZELLERBACH and its U. S. supplier, Mead Board Sales Inc., [and also from Abitibi] and thereafter to purchase all its supplies for B.C. and Alberta plants from MACMILLAN. It does not require cancellation of the supply relationship between MARTIN PAPER and ST. LAWRENCE and DRYDEN respectively in the Prairies, nor of small commitments with Building Products Limited and Sidney Roofing, who apparently make some jute liner from scrap supplied by MARTIN PAPER'S B. C. and Alberta plants. It is also provided that tonnage may be sold by MACMILLAN to MARTIN PAPER'S plants east of Alberta, but this would require mutual agreement, . . . The term of the arrangement for MACMILLAN to supply MARTIN PAPER is 10 years or until such time as POWELL RIVER or one of its affiliated companies produces containerboard, whichever is the longer period. Thereafter POWELL RIVER and MACMILLAN will each supply half of MARTIN PAPER'S requirements in British Columbia and Alberta. Containerboard is to be invoiced by MACMILLAN at 'the regional Canadian market price' in British Columbia and Alberta. . . . In clause 7 of the agreement it is provided that a quarterly rebate

shall be made by MACMILLAN of the difference between MACMILLAN's delivered price for supplies and U. S. west coast delivered price for the same products, plus one-half of the amount of the Canadian customs duty which would have been paid had the U. S. supplies been imported. . . . In clause 8 there is provision for a mutual revision, or arbitration, of price in the event that the Canadian market price should be less than the U. S. price plus half the customs duty or if either party is of the opinion that the regional market price is not one which would be offered or accepted by bona fide buyers or sellers. . . . Clause 9 in effect prohibits MARTIN PAPER from purchasing U. S. board for the manufacture of containers subject to a duty drawback on re-exporting without first offering the business to MACMILLAN, and if such business is accepted by MACMILLAN it will reimburse MARTIN PAPER for half the allowance made to MARTIN PAPER's customer in lieu of the duty drawback."

(Statement of Evidence, Vol.IV, pp.842-43)

This second agreement fixed the beginning of the 10 year period of its operation as January 1, 1958.

Mr. R. M. Shaw at the Vancouver hearings testified that prior to acquiring Martin Paper, MacMillan & Bloedel did sell to other companies, but did not remit half the duty to them. He testified further that no sales of board had been made to other companies after the acquisition of Martin Paper up to the end of 1959, primarily because other companies did not wish to buy from MacMillan & Bloedel, which was by then their competitor through ownership in Martin Paper (Vancouver Hearing pp.26-28, 35). As an example, Mr. Shaw mentioned Hinde & Dauch in Calgary, which did not buy board from MacMillan & Bloedel after the acquisition of Martin, even though the freight rate from Port Alberni to Calgary was less than the freight from Red Rock to Calgary.<sup>(1)</sup> The sales to Hinde & Dauch, prior to the acquisition of Martin Paper, were at standard Canadian prices with no duty remitted (Vancouver Hearing, pp.28-29).

Mr. Shaw testified that MacMillan, Bloedel and Powell River were managing Martin Paper at the time of the Vancouver hearing. He did not know what price policy the company had with

---

(1)

It was substantially less even than the rate from Dryden to Calgary, e.g., effective March 1, 1955 the rate from Port Alberni to Calgary was \$1.53 per 100 lbs., while that from Dryden, Ontario was \$2.05.

Martin Paper at that time (Vancouver Hearing, pp.29-30).

Mr. Shaw also testified that no economies resulted from the integration of Martin Paper and MacMillan & Bloedel's board operations (Vancouver Hearing, p.34).

Mr. A. G. Sexsmith, Manager of Kraft Paper Sales, MacMillan, Bloedel and Powell River Limited, gave testimony and presented exhibits dealing with the board prices charged by MacMillan & Bloedel both before and after their acquisition of a half interest in Martin Paper. The company's prices for kraft liner and for corrugating kraft in the British Columbia market as of March 8, 1957, July 3, 1958 and September 4, 1958 are presented in the table below.

<u>Date</u>	<u>Description of Linerboard</u>	<u>Weight per M. Square Feet</u>	<u>Price Per M. Square Feet</u>
Mar. 8, 1957	Kraft Liner	26#	\$2.07
effective	"	37½#	2.84
Feb.27, 1957	"	42#	3.11
	"	47#	3.48
	"	69#	5.11
	Corrugating Kraft	26#	2.00
July 3, 1958	Kraft Liner	26#	1.89
effective	"	37½#	2.59
July 2, 1958	"	42#	2.84
	"	47#	3.18
	"	69#	4.66
	"	90#	6.42
	Oyster Liner	42#	3.57
	"	69#	5.57
	Fully Bleached Liner	(\$220 Per Ton)	
	Corrugating Kraft	26#	1.82
	"	33#	2.52
Sept.4, 1958	Kraft Liner	26#	1.89
effective	"	37½#	2.59
Sept.4, 1958	"	42#	2.84
	"	47#	3.18
	"	69#	4.66
	"	90#	6.42
	Oyster Liner	42#	3.57
	"	69#	5.87
	Fully Bleached Liner	(\$220 Per Ton)	
	Corrugating Kraft	26#	1.82
	"	33#	2.52

Source: Exhibit VH-4.

Mr. Sexsmith testified that these were the prices charged to Martin Paper in New Westminster. It is apparent from the above that these prices, or the majority of them, declined after the acquisition of Martin Paper (March 27, 1958) from the levels at which they had stood prior to that acquisition (Vancouver Hearing, pp.94-96). Mr. Sexsmith explained this reduction in relation to the fact that prices in British Columbia are controlled directly by the price (including Canadian customs duty) at which board can be imported into Canada from the United States, the freight from the American plant being negligible. It should be noted that the prices shown on these lists are invoice prices and have nothing to do with the duty rebate (Vancouver Hearing, pp.100-01).

Exhibit VH-5 shows the prices charged by MacMillan & Bloedel in Edmonton and Calgary, according to the three price lists at three dates in 1957, viz., Price List No. 1, March 8th; Price List No. 2, April 3rd and Price List No. 3, June 14th. These may be tabulated as follows:

<u>Date</u>	<u>Description of Linerboard</u>	<u>Weight Per M. Square Feet</u>	<u>Price Per M. Square Feet</u>
Mar.8, 1957	Kraft Liner	26#	\$2.21
effective	"	37½#	3.03
Feb.27, 1957	"	42#	3.34
	"	47#	3.75
	"	69#	5.51
	Corrugating Kraft	26#	2.00
Apl.3, 1957	Kraft Liner	26#	2.07
effective	"	37½#	2.84
Apl. 3, 1957	"	42#	3.11
	"	47#	3.48
	"	69#	5.11
	Corrugating Kraft	26#	2.00
June 14, 1957	Kraft Liner	26#	2.21
effective	"	37½#	3.03
June 17, 1957	"	42#	3.34
	"	47#	3.75
	Corrugating Kraft	26#	2.00

Source: Exhibit VH-5.



As shown in the above table, the prices in Edmonton and Calgary of the various weights of linerboard declined from February 27, 1957 to April 3, 1957, but by June 14, 1957 they had all returned to their former level. The price of corrugating kraft remained unaltered at the last two dates from its level on February 27, 1957. Mr. Sexsmith testified that American competition was not a factor in the Alberta market (Vancouver Hearing, p.101).

Mr. Sexsmith testified further that the prices charged by MacMillan & Bloedel in Edmonton and Calgary, as shown above, were very slightly lower than Crown Zellerbach's prices in those cities, but that these differences would result in a small converter's realizing substantial savings on his annual requirements of board (Vancouver Hearing, pp.97-98).

Mr. Sexsmith also testified that MacMillan & Bloedel's Calgary and Edmonton prices were slightly lower than Dryden's and St. Lawrence's prices in those cities. Despite these differences MacMillan & Bloedel had made no sales in those cities since 1957 (when some board was sold to Hinde & Dauch in Calgary) except for a trial shipment or two in late 1960 (Vancouver Hearing, pp.101-02).

Mr. Sexsmith introduced Exhibit VH-6 which is a tabulation of MacMillan & Bloedel's sales of kraft products in both the domestic and export markets.



"December 18th, 1960

NO. 2 Machine Production

<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>To Date 1960</u> [Dec 1
23,340 Tons	46,404 Tons	62,766 Tons	71,142 Tons

Martin Paper Products - Sales - % of Production

<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>To Date 1960</u>
18.1% (4,232 Tons)	24.2% (11,213 Tons)	26.1% (16,357 Tons)	28.7% (20,392 Tons)

United Kingdom - Sales Liner & Corrugating - % of Production

<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>To Date 1960</u>
30.3% (7,075 Tons)	46.2% (21,442 Tons)	44.9% (28,164 Tons)	47.5% (33,817 Tons)

All Other Customers and Grades - % of Production

<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>To Date 1960</u>
51.6% (12,033 Tons)	29.6% (13,749 Tons)	29.0% (18,245 Tons)	23.8% (16,933 Tons)

A.G. Sexsmith/bc"

(Exhibit VH-6)

It was brought out during Mr. Sexsmith's testimony that the figures appearing under the heading "All Other Customers and Grades - % of Production" do not include any board (Vancouver Hearing, p.102). All sales to Martin Paper consisted of liners and corrugating medium. Mr. Sexsmith further said that since June 30, 1960 MacMillan & Bloedel had attempted to make sales into the Alberta area and had succeeded in making a trial shipment or two (Vancouver Hearing, p.102). Yet it was true that throughout the whole period of production of board by MacMillan & Bloedel the company made virtually no sales of board in Canada to any customers except Martin Paper. These sales were

made in British Columbia and Alberta, with quite minor quantities in Saskatchewan and Manitoba (Vancouver Hearing, p.103).

### 3. Consideration of Allegations

In previous chapters of this report we have set out fully the basis for our opinion that there is no valid reason why the purchase price paid for a business should be directly related to the book value of its assets. The same reasoning is applicable to MacMillan & Bloedel's acquisition of a 50 per cent interest in Martin Paper. Neither is there any reason why the purchase price should be equal to or close to the appraised value of assets. As stated previously, the present and prospective earnings of a company are the important consideration in setting a purchase price. The ratio of the purchase price of Martin Paper in relation to its earnings is close to the average of such ratios calculated for a large number of other Canadian companies, the latter calculated on the basis of their earnings in the previous year and the market price of their shares on the date at which MacMillan & Bloedel made the acquisition. It should also be noted that the actual purchase price resulted from arbitration by a senior officer of a large and well-known investment firm. In the face of the evidence we see no reason to believe the price paid was excessive or unreasonable. There is the further evidence adduced at the Vancouver hearings which indicates that the purchase price paid for the 50 per cent interest in Martin Paper in no way added to the overhead costs of the latter.

The acquisition of a half interest in Martin Paper by MacMillan & Bloedel might, on a superficial view, be thought likely to result in higher prices of board to Martin Paper, particularly in view of the agreement embodied in the terms of sale that, with the exception of certain Prairie plants of Martin Paper which were to continue to be supplied from Eastern Canada, all Martin Paper's supplies of board were to be bought from MacMillan & Bloedel, except when the latter failed to meet better prices offered by American exporters. But deeper reflection shows that there are other factors at work which tend to negate such probabilities.

One of these is the competition of imported American shipping containers, which, by placing a ceiling on the price of Martin Paper's products, would in turn place a corresponding limit upon any rise in MacMillan & Bloedel's board prices. Otherwise Martin Paper's operations would become unprofitable.

The other consideration is the quite specific provision in the terms of the acquisition agreement that, although board was to be invoiced to Martin Paper at the regional market price, MacMillan & Bloedel was to pay to Martin Paper rebates equal to the difference between MacMillan & Bloedel's delivered price and the laid-down price of American imports plus half the customs duty payable had the board

actually been imported. The effect of this was to make MacMillan & Bloedel's board prices to Martin Paper lower than American landed prices by an amount equal to half the customs duty. Martin Paper, in other words, got all the price benefit of American competition plus something more. This should give Martin Paper a saving in its costs of board and might provide a benefit to box customers if Martin Paper chose to pass on the saving in lower box prices. The evidence does not disclose whether or not Martin Paper was still enjoying the benefit of this price arrangement, at the time of the Vancouver hearing.

The invoiced prices of board to Martin Paper at New Westminster (quite apart from the rebate) fell after the date of the acquisition from their pre-acquisition levels. This benefit flowed not from the acquisition, but from American competition, and, presumably, would have occurred in the absence of the acquisition. Although American competition was stated not to be a factor in the Alberta market for board, MacMillan & Bloedel's prices in Calgary and Edmonton have been slightly below those of Dryden and St. Lawrence in those cities.

The failure of MacMillan & Bloedel to sell board to Hinde & Dauch's container plant in Alberta, despite MacMillan & Bloedel's lower prices, means that Hinde & Dauch's Calgary plant does not get the benefit of MacMillan & Bloedel's lower price. But blame for this cannot be placed on MacMillan & Bloedel: it is, rather, a detriment flowing from a buying policy decision by Hinde & Dauch to buy board supplies from Eastern Canada. The evidence is that MacMillan & Bloedel had tried to make such sales, but that Hinde & Dauch did not wish to buy raw materials from a firm whose subsidiary competed with it in the market for the finished product.

MacMillan & Bloedel had steadily expanded its production of pulp, newsprint, and kraft paper since 1948. The firm's entry into the manufacture of kraft products was apparently felt to be necessary by reason of the terms of its forest management licence, which necessitated the conversion of wastes into useful products. That MacMillan & Bloedel should seek to sell containerboard to Martin Paper, among other customers, was natural and logical; that it should have sought an ownership interest in Martin Paper was probably due to the likely loss of that market to Powell River if that company should commence production of containerboard. It is hard to avoid the conclusion that the pattern of acquisitions in Eastern Canada in the post-war period was in the minds of the officers of MacMillan & Bloedel, as it had been in the minds of Powell River's executives prior to the latter company's acquisition of Martin Paper. Mr. H. S. Foley of Powell River was certainly aware of some of the mergers in Eastern Canada and had discussed with bankers and some customers the wisdom of getting into the production of the end product (Evidence, pp.3763-64).

The acquisition of a subsidiary as a captive market for board cannot be justified on the grounds of any economies arising from integrated board and box production: the evidence is that there are no significant economies. This being so, there is no foundation for any argument that integration of board and box plants is indispensable to the profitable operation of either. Nor can it be argued that the conservation of forest resources through the utilization of wastes in the manufacture of kraft products is dependent upon integration of board and box operations.

Powell River's motivation in selling a 50 per cent interest in its subsidiary to MacMillan & Bloedel is again easily understandable. Powell River at one time had intended to integrate backwards from container manufacture to board manufacture. Once MacMillan & Bloedel had entered the board field the thought likely did occur to Powell River executives that MacMillan & Bloedel might integrate forward into the container field. Had MacMillan & Bloedel done this, the result might well have been a battle for sales of shipping containers which would force their prices well below the ceilings set by American imports; or, alternatively, if an agreement on prices were reached, excess capacity and losses in the container mills of both companies and in MacMillan & Bloedel's board mill.

There is some evidence that the industry's executives were thinking about the possibility of excess capacity. Mr. H. S. Foley of Powell River was of the opinion that a production of 50,000 tons a year was necessary to efficient operation of a kraft mill, and that Martin Paper's annual consumption was about 30,000 tons a year. Had Powell River produced 50,000, the remainder, 20,000 would have had to be sold on world markets, which he regarded as highly competitive (Evidence, p.3760). Whether Mr. Foley's minimum production figure for efficient operation and his figure for Martin Paper's consumption are even approximately correct is irrelevant; the importance of this evidence lies in its showing that the spectre of excess capacity was present in Mr. Foley's mind.

The subsequent consolidation of Powell River and MacMillan & Bloedel has removed the basis for such fears if they were important factors leading to the joint ownership of Martin Paper. The integration of Martin Paper with board producers removed an independent element in the container industry but may have encouraged MacMillan & Bloedel to take a more active interest in providing board for the domestic market. In view of the limited sources of supply of board in British Columbia the acquisition of Martin Paper may not have altered significantly the market situation existing at the time. However, the acquisition would add to the cumulative effect on the industry of the integration of board mills and container plants.



## CHAPTER XXV

### CANADIAN INTERNATIONAL PAPER COMPANY'S ACQUISITION OF HYGRADE

#### 1. Method of Acquisition and Position Taken by Director

The circumstances of the acquisition of Hygrade by C.I.P. are described in the Statement of Evidence as follows:

"272. On December 1, 1954, Canadian International Paper Company (C.I.P.) acquired interests in Canada formerly owned by Brown Corporation, including its mill at La Tuque, Quebec. This mill was acquired with the intention of entering the kraft field, in which International Paper in the U.S. was heavily engaged. Until this time the only kraft interest of C.I.P. was its subsidiary Continental Paper Products Limited, a converting operation producing, among other things, kraft paper products, the paper for which was bought from normal trade sources. The acquisition of the La Tuque mill took place before any negotiations for the purchase of HYGRADE began. In fact C.I.P., for several months before such negotiations began, had been engaged in building a corrugated shipping container plant at Pointe aux Trembles, Quebec. This plant was to be an outlet for board produced at La Tuque, and HYGRADE was acquired for the same reason. In addition, C.I.P. management considered that the Canadian domestic market generally could take more kraft board than was available and other sales would be made in the export markets. After the mill began to ship board in June 1956, C.I.P. supplied part of the requirements of board of several of the non-integrated Canadian shipping container companies, including two new entrants into the industry (Evidence pp.6087-6103).

273. HYGRADE at the time of the acquisition was a non-integrated shipping container manufacturer having one plant, located at London, Ontario. Its shares were all owned by Transport Securities Limited, from which they were purchased by International Paper Company for 50,000 common shares of International Paper transferred on May 20, 1955. On the same day C.I.P.



delivered a note for \$4,800,000 U.S. to its parent company in payment for the shares of HYGRADE. This was apparently the market price of the 50,000 common shares of International Paper as of the effective time of the deal. Such shares closed on the Canadian stock exchanges on May 20, 1955, at \$97 per share (Financial Post May 28, 1955, p.34). Accordingly, Transport Securities received the equivalent of \$4,800,000 cash for its shares of HYGRADE. The pro forma balance sheet of HYGRADE supplied by C.I.P. to the Director showed the net worth of HYGRADE as \$1,693,500 as against \$4.8 million paid by C.I.P. (Exhibit 72).

274. R. G. Ivey of London was the President of HYGRADE and an officer of Transport Securities Limited both before and after the sale to C.I.P. although the beneficial owner of the business was his son, R. M. Ivey. R. G. Ivey was also a director of C.I.P., having been on that company's Board of Directors since sometime in the 1940's. . . . "

(Statement of Evidence, Vol.IV, p.855)

The Statement of Evidence includes the following excerpt from the evidence of Mr. Ivey:

"Q. . . . as Director of the Canadian International Paper Company, how did you justify the purchase for \$4,800,000.00 of a company whose net worth was only \$1,700,000.00?

A. Well I don't think I need justify the purchase -- I think it was a bargain.

Q. Well that is exactly what I am getting at - why?

A. Why --

Q. Yes?

A. Well if you look at the basis of sales made in the States and Canada - they are usually on earnings bases - and if you take the earnings basis to establish this purchase price, you will see that it is a low price.

Q. What you are telling us then, is that the earnings basis of Hygrade justified a price of that order?

A. Yes."

(Evidence p.5351)

The following allegation with respect to the acquisition of Hygrade by C.I.P. is made in the Statement of Evidence:

"The purchase price was greatly in excess of the value of the property acquired and was calculated to saddle the enterprise with unduly high overhead costs which had to be borne by the public."

(Statement of Evidence, Vol.IV, p.904)

## 2. Consideration of Allegation

In view of the reasons set out in earlier chapters, it is not necessary to go into the details of the balance sheets of the company provided in its Return of Information to the Director to consider the allegation of an excessive purchase price. An examination of these does show that the net worth of Hygrade was very much below the price paid to acquire the company; but for the reasons previously given we do not consider that, in the circumstances, net worth is a realistic indication of the value of a company. Consequently, the difference between the purchase price and net worth of Hygrade is not a measure, or an indication, of an excessive price. Even if the price were excessive it has been shown in previous analysis that any such excess would have no effect on the pricing policy of the firm. Whatever prices were provided by the market would be sought, regardless of the cost of acquisition and market prices were those resulting from the Container Statistics system and were as high as could be obtained in the face of potential American competition.

There were, however, two additional factors in the situation. The evidence shows that C.I.P. had begun the construction of a shipping container mill at Pointe aux Trembles, Quebec, prior to acquiring Hygrade. The acquisition of Hygrade may have been undertaken by C.I.P. with the motive of guaranteeing itself a market for amounts of board in excess of those required by the Pointe aux Trembles operation. Nevertheless it is clear that by purchasing Hygrade, C.I.P., had in fact eliminated one of the possible competitors to its Pointe aux Trembles operation.

The other factor affecting the competitive situation arises from the position in which C.I.P. then found itself, a position which it had in common with Gair, Hinde & Dauch, and Bathurst, namely, that it was producing containerboard for sale to independent converters who were in competition with its own shipping container plants. Knowledge of such a situation would unquestionably act as a deterrent upon entrepreneurs contemplating an entry into the shipping container field. The acquisition

of Hygrade meant that quantities of board which C.I.P. might otherwise have been able to provide to independent container manufacturers would now be delivered to its subsidiary. This, however, was only a difference in degree because C.I.P. had begun the construction of its own container plant before it acquired Hygrade and thus would have been an integrated producer in any case.

## CHAPTER XXVI

### SUMMARY AND APPRAISAL OF ACQUISITIONS, 1945 TO 1960

#### 1. Summary

During the period 1945 to 1960 most of the large container-board mills acquired one or more subsidiaries in the shipping container field. This had the effect of changing firms which had previously been only board makers or only converters into integrated board-and-container enterprises. In one case a board mill (St. Lawrence) acquired what was at that time an integrated board and box concern (Hinde & Dauch). The end result of this process was that by 1960 very large proportions of the total Canadian production of board and shipping containers were made by integrated firms.

Bathurst acquired Shipping Containers in 1945. This acquisition gave Bathurst a market under its own ownership for more than one quarter of its total output of containerboard - 27.2 per cent of it in 1947 and 27.9 per cent of it in 1954. Shipping Containers accounted for about 11 per cent of the total production of shipping containers in the Central Provinces from 1948 to 1954. Shipping Containers had, due to an exclusive supplying contract with Bathurst, been virtually a captive market of the latter for some years.

In 1945, Bathurst also acquired Kraft Containers, thereby securing another captive market for a large percentage of its total sales of containerboard, varying from 28.42 per cent in 1947 to a maximum of 31.28 per cent in 1950 to 29.34 per cent in 1954. Kraft Containers produced about 11 per cent of the total shipping containers manufactured in the Central Provinces in the period 1948 to 1954. Prior to this acquisition Kraft Containers had been virtually a captive market for containerboard owing to an exclusive supplying contract with Bathurst. It is necessary to point out that this acquisition and that of Shipping Containers took place prior to the period with which the Director's allegations of a combination are concerned.

In 1954, Bathurst acquired Canadian Wirebound. This acquisition differed from the previous two acquisitions in that Bathurst was not, before



acquiring Canadian Wirebound, one of the latter's suppliers of board, and had no reserve capacity from which to supply its new subsidiary. Bathurst then signed a contract for the supply of board to Canadian Wirebound from St. Lawrence, which up to then had supplied practically all Canadian Wirebound's requirements. The annual amounts specified in the new contract were much higher than St. Lawrence's shipments to the independent Canadian Wirebound had ever been. The acquisition of Canadian Wirebound meant that what had been St. Lawrence's largest independent customer was now a subsidiary of a competitor in the board field. Mr. Godden stated in evidence that Bathurst did not guarantee that St. Lawrence would have the Canadian Wirebound tonnage for all time. The possibility of the future loss of this board market to Bathurst was probably a matter of concern to St. Lawrence and may well have provided some motivation for St. Lawrence's later acquisition of Hinde & Dauch. The acquisition of Canadian Wirebound increased the proportion of the total Canadian supply of board being converted by Bathurst's subsidiaries. In 1954, Shipping Containers and Kraft Containers received 20.7 per cent of the total shipments of board to container mills in Central Canada. Assuming that Canadian Wirebound had been owned by Bathurst for the full year of 1954, this percentage would have been 29.26 per cent.

In December, 1958, Bathurst acquired a large minority interest in Maritime and in the same year acquired Norwood Box Company, the latter a small company manufacturing shipping containers in Winnipeg. These last two acquisitions increased the importance of the Bathurst group of companies in the shipping container market and further increased the captive market for Bathurst's containerboard.

Hinde & Dauch acquired Martin-Hewitt in 1954. The latter's percentage of the total production of shipping containers in the Central Provinces never rose above 1.87 per cent in the period 1948 to 1954. In 1954, Hinde & Dauch also acquired Corrugated Paper Box and with it the latter's Winnipeg subsidiary, Hilton. Corrugated Paper Box's share of the total production of shipping containers in the Central Provinces in 1954 was 3.63 per cent. These acquisitions gave Hinde & Dauch an expanded share of the shipping container market in the Central Provinces and also a share in the production of the Prairie Provinces.

In 1959 St. Lawrence, one of the two largest producers of kraft board in Canada and hitherto an unintegrated firm, acquired Hinde & Dauch which was at that time, of course, an integrated manufacturer of board and boxes. The result of this acquisition was that the percentage of the total production of containerboard in Canada which came under the control of one firm rose to 45 per cent. It also gave St. Lawrence a captive market for an important fraction of its board production.

In 1945, Pacific Mills acquired Canadian Boxes. Prior to this acquisition, Canadian Boxes had engaged in the manufacture of corrugated



shipping containers but not of solid fiberboard containers. On the other hand, Pacific Mills had manufactured solid fiber containers but no corrugated containers. The reason for Pacific Mills' acquisition of Canadian Boxes was claimed to be the greatly expanded production of kraft board and other products attendant upon the conversion of Pacific Mills' No. 3 machine at Ocean Falls from newsprint production to the manufacture of kraft products because it had become inefficient for producing newsprint. Prior to the acquisition of Canadian Boxes, Pacific Mills had been supplying all of the board requirements of Canadian Boxes, with the exception of very small quantities of jute board supplied by Sidney Roofing. After the acquisition of Canadian Boxes, Pacific Mills continued to supply that firm with all its requirement of board. This acquisition occurred prior to the period with which the Director's allegations of combination are concerned.

In 1947, Martin Paper acquired Canadian Western Box, a small shipping container firm operating in the city of Calgary.

Powell River, in April 1954, acquired Martin Paper, Powell River was not at that time a producer of containerboard nor has it become one since. At the time Powell River acquired Martin Paper, the latter was importing its supply of containerboard for its New Westminster plant from Mead Board Sales at Macon, Georgia, which supplies were laid down in Vancouver at prices competitive with those of Crown Zellerbach. In 1959, Powell River sold a 50 per cent interest in Martin Paper to MacMillan & Bloedel, the latter having begun the production of containerboard in 1957. The reason given by Powell River for its not manufacturing containerboard was the prior entry of MacMillan & Bloedel into this industry. The latter's entry into the manufacture of kraft was consequent upon its obtaining a provincial forest management licence which required it to expand its facilities to consume the waste products of its saw mills and plywood mills. Prior to the purchase by MacMillan & Bloedel of a half interest in Martin Paper, a survey of markets had been made for MacMillan & Bloedel which foresaw the probability that Martin Paper, whose new Westminster plant was at that time a main domestic customer for MacMillan & Bloedel's containerboard, might cease to buy from MacMillan & Bloedel if Powell River began producing board.

One of the agreements signed by MacMillan & Bloedel and by Powell River at the time of the former's acquisition of the 50 per cent interest in Martin Paper dealt with the supply of containerboard to Martin Paper, whose New Westminster plant, at this time, was securing board from both MacMillan & Bloedel and Crown Zellerbach. Powell River undertook under this agreement to cancel Martin Paper's contract and obligations for the supply of containerboard from Crown Zellerbach and Mead Board Sales and thereafter to purchase all supplies for Martin Paper B. C. and Alberta plants from MacMillan & Bloedel with the exception of

certain small commitments of Martin Paper with Building Products Limited and Sidney Roofing. This arrangement for supply by MacMillan & Bloedel was to last for ten years or until Powell River or one of its affiliated companies began to produce containerboard, whereupon each was to supply half of Martin Paper's requirements in British Columbia and Alberta. Containerboard was to be invoiced by MacMillan & Bloedel at the regional Canadian market price in British Columbia and Alberta subject to an agreement for quarterly rebates of half of the customs duty which would have been paid had American supplies been imported plus the difference between MacMillan & Bloedel's delivered price for supplies and the American west coast delivered price for the same products. This meant that the actual net price to be paid by Martin Paper was the American west coast price plus half the Canadian customs duty. After the acquisition of Martin Paper, MacMillan & Bloedel sold no board to any other company, primarily because the other companies did not wish to buy from MacMillan & Bloedel. No economies resulted from the acquisition. There was no increase in the prices of containerboard charged by MacMillan & Bloedel to Martin Paper after the acquisition and no evidence that the prices charged were higher than those charged by Crown Zellerbach. In fact, the prices charged by MacMillan & Bloedel for some time after the acquisition of Martin Paper, even without taking the above rebates into account, were slightly lower than Crown Zellerbach's prices.

Canadian International Paper Company (C. I. P.) acquired Hygrade in 1955. In the previous year C. I. P. had acquired a mill at La Tuque, Quebec, for the purpose of entering the kraft field. C. I. P. began to ship kraft containerboard in 1956. For several months before negotiations began for the acquisition of Hygrade, C. I. P. had been engaged in building a corrugated shipping container plant at Pointe aux Trembles, Quebec, which was to be an outlet for board produced at La Tuque. Hygrade was acquired for the same reason. The construction of the plant at Pointe aux Trembles and the acquisition of Hygrade gave C. I. P. captive markets for a substantial proportion of its production of board. The acquisition of Hygrade also had the effect of eliminating a potential competitor of the plant at Pointe aux Trembles. The acquisition of Hygrade meant further that quantities of board which C. I. P. might otherwise have been able to provide to independent corrugators went to its subsidiary.

Since the Statement of Evidence was submitted to the Commission, we have learned that other acquisitions have occurred, as follows:

Bathurst acquired Wilson Boxes in 1960  
Canadian International Paper acquired Hendershot in 1960  
Abitibi acquired Pembroke Shook Mills in 1960  
MacMillan Bloedel and Powell River acquired Sidney  
Roofing in 1960.

## 2. Appraisal

### (a) The Legal Position

In 1960, in two cases, courts of first instance rendered judgment which may have far reaching effects upon the application of the Combines Investigation Act to merger cases. Neither of these cases was taken to an appellate tribunal. The first case was Regina v. Canadian Breweries Ltd., 126 C.C.C. 133. In it, Chief Justice McRuer of the High Court of Ontario referred to the meaning of the word "unduly" in Section 498(1)(d), of the Criminal Code (later Section 411(1)(d) of the Code and now incorporated in Section 32 of the Combines Investigation Act), as analysed by Mr. Justice Cartwright of the Supreme Court of Canada in Howard Smith Paper Mills Ltd et al v. The Queen 1957, S.C.R. 403. This was a case arising out of combination or agreement, not out of merger.

McRuer C.J. quoted Cartwright J.'s words found at pp.426-27:

"In essence the decisions referred to appear to me to hold that an agreement to prevent or lessen competition in commercial activities of the sort described in the section becomes criminal when the prevention or lessening agreed upon reaches the point at which the participants in the agreement become free to carry on those activities virtually unaffected by the influence of competition, which influence Parliament is taken to regard as an indispensable protection of the public interest; that it is the arrogation to the members of the combination of the power to carry on their activities without competition which is rendered unlawful; . . .

In other words, once it is established that there is an agreement to carry the prevention or lessening of competition to the point mentioned, injury to the public interest is conclusively presumed, and the parties to the agreement are liable to be convicted of the offence described in s. 498(1)(d). The relevant question thus becomes the extent to which the prevention and limitation of competition are agreed to be carried and not the economic effect of the carrying out of the agreement. In each case which arises under the section the question whether the point described has been reached becomes one of fact."



McRuer C. J. thought the language of Cartwright J. could not be interpreted to mean that the trial judge looked at all the surrounding circumstances and decided whether the agreement in question was, in the opinion of the Court, an undue restriction on competition. He stated at p.139:

"I think it was made quite clear that the legal meaning to be attributed to the word 'unduly' is a question of law. As I interpret Cartwright J.'s language it means this: If the agreement in question, when carried into effect, would give the parties to it the power to carry on their business virtually without competition, the agreement would be an agreement to unduly lessen competition."

The judge then stated that for the purposes of the prosecution before him the words "have operated or are likely to operate to the detriment or against the interest of the public" in the Combines Act had substantially the same meaning as the word "unduly" in Section 411 of the Criminal Code.

The actual decision of the Supreme Court of Canada in the Howard Smith case was unanimous, but Cartwright J.'s words, quoted above, were contained in a minority judgment. Thus, they cannot be considered as necessarily binding. In fact they were expressly not agreed with in the judgment of Batshaw J. of the Quebec Court of Queen's Bench in Regina v. Abitibi Power & Paper Co. Ltd. et al (1960), 131 C.C.C., 201. That case, like the Howard Smith case, was one based on agreement, not merger. Nevertheless, as adopted and interpreted by McRuer, C.J., Cartwright J.'s words have become part of the first judicial pronouncement we have had in a merger case of the principles of law applicable thereto.

Later in his judgment, McRuer, C.J., after referring to the Clayton Act in the United States, said at p.161:

". . . If I am correct in applying, by analogy, the language of Cartwright J. in the Howard Smith case to the Combines Act, it must be interpreted as differing from the Clayton Act in this important respect: under the Combines Act it must be demonstrated beyond a reasonable doubt that the merging of competitive corporations is likely to put it within the power of the merger to so extinguish competition as to affect prices by monopolistic control. As long as the evidence shows that there is strong virile competition in the market notwithstanding the merger, I do not think the merging of competing companies comes within the standard of proof required in a criminal case. . . ."

Another important statement of legal principle is found at p.141:

"At the conclusion of the Crown's case I ruled that the evidence of collateral agreements entered into by the accused which may have violated other provisions of the Combines Act or provisions of the Criminal Code were not relevant to prove that the merger has operated or is likely to operate to the detriment or against the interest of the public. My view was then, and still is, that the evil, whether it be the effect on competition or on anything else, which constitutes the offence as here charged, must be shown to flow from the merger and not from collateral acts which might have been the subject of another charge, and which might have been committed by the corporation qua corporation, whether it was a merger or not. . . ."

McRuer C.J., at p.142 indicated two circumstances which would be relevant in a merger case:

". . . if the merger, by extinguishing the competition that would arise from a number of companies, puts itself in a position to dictate trading practices to others that are engaged in the industry, that would be relevant in considering whether or not the merger has operated or is likely to operate to the detriment of the public. . . . There is still another aspect of this case and that is by the reduction of the number engaged in the industry, the merger may be considered to operate to the detriment of the public if the result is that it facilitates those remaining in the industry in coming together in agreements in restraint of trade. I am not deciding that matter, but I am leaving it open to consider what evidence there is, either of dictation to the industry or that the agreements have been facilitated or future agreements will likely be facilitated by reason of the reduction of the number of those that are engaged in competition in the industry."

The second merger case in 1960 was Regina v. British Columbia Sugar Refining Co. Ltd. and B. C. Sugar Refinery Ltd., 129 C. C. C., 7. For the purposes of this report the Commission considers it unnecessary to review the judgment at length. Chief Justice Williams of the Manitoba Court of Queen's Bench agreed that the detriment complained of must flow from the merger and that evidence of agreements that might constitute offences under other provisions in the Act was not admissible on the merger charge. He further stated that it is the effect of the merger that must be considered



and that evidence of motive or purpose is entirely irrelevant. In one respect he went further than McRuer C. J. He said, at p.60:

"I should say here that in my opinion the Crown in this case must not only establish that as a result of the merger the accused acquired the 'power' referred to in the cases decided under s.411 (s.498) of the Criminal Code: It must also establish excessive or exorbitant profits or prices. The Crown has not attempted to establish exorbitant profits; its attempt to establish exorbitant prices fails.

The Crown must also establish a virtual stifling of competition.  
.. ."

In both the Breweries and the Sugar cases there were findings of fact strongly in favour of the accused, which may explain why no appeal was taken in either case. In particular, in the Breweries case it was held that the brewing industry, including the price of beer, during all relevant periods, had always been subject to strict control by the respective provincial governments, and that this control must be presumed to have been exercised in the public interest.

The judgments in these two cases are the only judgments which deal directly with the legal principles applicable to the merger provisions of the Combines Act. In the Commission's opinion, in the light of their pronouncements, viz:

1. that in order to prove that a merger has operated or is likely to operate to the detriment or against the interest of the public it must be shown that its effect or likely effect is the virtual elimination of competition i.e., a virtual monopoly, and
2. that this detrimental effect must flow from the merger itself and not from any collateral agreement or acts which might have been entered into or done by the acquiring company entirely without reference to the merger,

none of the acquisitions with which this inquiry has been concerned would constitute a merger contrary to the provisions of the Combines Act. There is still a substantial number of companies, independent of each other, engaged in both the containerboard and the shipping container phases of the industry. There is no evidence, and probably there could be none, that any of these mergers has put the acquiring company in a position to dictate trading practices to others in the industry. And while the Commission has heard argument, there is little evidence, apart from the mere reduction in the number of companies, that any one or even all of these acquisitions

has facilitated those remaining in the industry in coming together in agreements in restraint of trade. Again there is no suggestion that any of the acquisitions had anything to do with the Container Statistics arrangements or agreements, or that any board or container company, other than the parties to each of them, had anything to do with them.

In the Commission's opinion, the view that in order to show that interference with competition is "undue" or "to the detriment or against the interest of the public," virtual elimination of competition is required, as enunciated by Cartwright J. and adopted by McRuer C.J. and Williams C. J. lays down a much stricter test than was indicated in earlier decisions of the Supreme Court of Canada. The true interpretation of the quoted word and phrase therefore appears to the Commission to be uncertain, pending clarification by the Supreme Court of Canada or by statute.

In respect of cases arising out of agreement, the only case in which Cartwright J.'s view has been strongly argued is Regina v. Abitibi Power & Paper Co. Ltd., supra, in which Batshaw J. expressly disagreed with the view that "preventing or lessening, unduly, competition. . ." means necessarily the virtual elimination of competition.

In respect of merger cases there has been no judicial examination of the question other than in the Breweries and Sugar cases. If our understanding of the views expressed in those cases is correct, and if they should prove to be the final word, without modification, the Commission considers it will be very difficult indeed for the Crown ever to secure a conviction in a merger case, unless, as a result of and flowing from the transaction, the merger constitutes a complete or virtually complete monopoly in the industry.

(b) Economic Analysis

In addition to the foregoing examination of the legal position, the Commission considers it useful to examine the economic effects of the acquisitions described in this report.

All of these acquisitions but one (Martin Paper's acquisition of Canadian Western Box in 1947) were acquisitions by companies which were paperboard manufacturers or by integrated companies which already were manufacturers of both paperboard and shipping containers. All of the companies acquired were manufacturers of shipping containers, but in one case (St. Lawrence's acquisition of Hinde & Dauch in 1959) the acquired company had long been an integrated board and container manufacturer and

had been the acquiring company in two acquisitions in 1954.

These acquisitions have resulted in a very marked increase in the concentration of container manufacturing in the hands of board companies. Here it is pointed out that three of the acquisitions occurred prior to the date at which plans for the creation of Container Statistics Limited began to be formed, let alone before the commencement of the period during which the Container Statistics arrangements operated. In the Commission's opinion there is no basis for relating them to the Container Statistics arrangements. They are, however, part of the history of increasing concentration.

The result of the acquisitions described in this report is that the whole structure of the shipping container industry has been changed radically. Whereas, prior to 1945 the greater part of the container industry was in the hands of independent companies, by the date of the Statement of Evidence the great majority of these companies had passed into the control of a few board companies. Since the date of the Statement of Evidence this process has been carried still further, by the acquisition of Wilson Boxes, Hendershot and Pembroke Shook Mills by board companies, so that there are now only three firms in the container industry that are independent of board companies. These three are all located in the Ontario-Quebec region. None of them is among the larger container manufacturers, their combined production in 1960 being only 13.79 per cent of the total Ontario-Quebec production (Table 9B) and only 11.02 per cent of total Canadian production (Table 11).

The board companies are likewise quite few in number and almost all of them are integrated with container companies.

Bearing in mind the extent to which integration has proceeded, the Commission considers the effect of the acquisitions will be to discourage new entrants at both board and container levels of production. It is true that in the period 1947-60 some companies did enter at both levels. Of the container companies who so entered only Sherbrooke survived as a non-integrated container manufacturer in 1960. Of the board companies it is recalled that Dryden entered on the encouragement of companies associated with Bathurst and that when Canadian International Paper entered the board field it built a container plant and also acquired a substantial container company (Hygrade). Further, Abitibi entered the board field for export purposes and only later turned to the domestic market. In 1960 it acquired the only new independent entrant into the container field in the previous five years (Pembroke Shook Mills Limited).

This history does not lead the Commission to doubt the validity

of its conclusion that the acquisitions will tend to discourage new independent entrants. It seems clear that in most instances, a prime reason for the acquisition of a container company was to make sure of a market for a substantial part of the acquiring companies' board production. With nearly all the board industry and the great majority of the container industry in the hands of integrated companies, this motive will be even stronger than in former years. The problem of obtaining customers in present circumstances is certain to have a deterrent effect upon prospective new independent board companies.

While there is no particular difficulty in entering the container field, in terms of cost, of equipment or of skilled personnel, the present structure of the industry will, in our opinion, occasion serious misgivings concerning an assured source of supply of containerboard, particularly in periods of shortage and particularly if exclusive supply contracts and other elements of rigidity continue to prevail in the market. It therefore appears reasonable to expect the normal pattern to be that new producing units in the board and container industries in the future will be set up by integrated companies, or that an entry at one level will be followed quickly by integration with a company at the other level.

The present industry structure has further elements that may lead to injury or detriment to the public. Let us suppose that all agreements or arrangements concerning prices at both levels of production are terminated. The small number of board companies in the country would facilitate the maintenance of substantial uniformity of prices by means of a policy of price leadership, aided perhaps by refraining from aggressive action to expand their sales at each other's expense. The complete dominance of two board companies in the British Columbia region and of another two board companies in the Maritime region would make such a policy in those regions a pretty simple matter. It would not be much more difficult in the Prairie region, where in 1960 two board companies had 78.40 per cent of the market, or in the Ontario-Quebec region, where in that year three board companies had 84.74 per cent.

If the container making level of the industry were composed largely of a number of independent companies, the competition among them would tend to minimize, at that level, the public detriment that such a course of action would cause at the board level. Since, however, a great proportion of container productive capacity is now integrated, (all of it except in the Ontario-Quebec region) the board companies could, by orders to subsidiaries, effectively eliminate price competition at the container level. Small independent container companies would hardly dare to challenge the prices of firms



dominating both the shipping container market and, at the same time, their sources of board.

The Commission is not to be understood by the two last paragraphs to mean that the integrated board and box companies would necessarily act in the manner described therein. In our opinion, however, in the situation presently existing in the industry, the power to institute such a policy is there. Bearing in mind the long history of co-operative uniform pricing in the industry it appears not unlikely that the power would be used. By this means, uniformity of prices could be achieved without recourse to anything in the nature of an overt price agreement.

## PART III

### CHAPTER XXVII

#### RECOMMENDATIONS

In the previous chapter the Commission expressed the view that the decisions of trial courts in the Canadian Breweries and Sugar cases have led to uncertainty in the law, particularly as it applies to mergers. It is our hope that in the near future the questions raised by these decisions will be reviewed by appellate tribunals, more particularly by the Supreme Court of Canada, so that they may be definitely settled.

In the case of the arrangements which have led to the establishment of common prices of containerboard and of shipping containers we think that under the Combines Investigation Act an application may be made for a court order which would restrain the participants in such arrangements from continuing or resuming them in the same or a modified form in the future. In view of the persistence with which arrangements to secure the maintenance of common prices have been pursued, in one form or another, over such lengthy periods the Commission believes that a restraining order should be sought from the court, under the provisions of the Combines Investigation Act, which would be broad enough to prohibit the participants from using jointly the services of any person or private organization in connection with any matters relating to prices, costs or statistics. It is the opinion of the Commission that the interchange of statistics on production, shipments, etc. among the participants has assisted in the maintenance of the arrangements for common prices and that, in view of the circumstances existing in the board and container industries, such interchange of statistics should be discontinued. Whatever statistics are needed by the industry could be secured through the Dominion Bureau of Statistics by whom they would be compiled in a way which would not reveal particulars of the operations of individual companies. Because of the long-established practice of common pricing such a restraining order, in itself, might not lead to an immediate change in competitive conditions in the industry. It

could be expected to assist in clearing the field for whatever competitive factors might be introduced in other ways.

The structural situation in the industry created by the long series of integrations that have occurred during the last seventeen years gives rise to concern, for we see in it the likelihood of continuing public detriment, even assuming that all arrangements in the industry with regard to price are discontinued. It might be thought that dissolution of the mergers would provide a remedy adequate to cope with the problem. In our view this would not be so in respect of the only horizontal merger of board companies that has occurred during the whole period under review, that of Hinde & Dauch by St. Lawrence. While this merger gave St. Lawrence control over the largest share of the board market held by any company (in 1960, 42.99 per cent of the Ontario-Quebec market and 56.38 per cent of the Prairies) and increased concentration substantially, it is only distinguishable from the other acquisitions because of the position of Hinde & Dauch as a producer of board as well as of containers.

Linerboard and corrugating medium are the principal materials used in the production of shipping containers with about twice the tonnage of linerboard used as of corrugating medium. Hinde & Dauch produces semi-chemical corrugating medium and jute linerboard. With the increase in the proportion of kraft linerboard used in making shipping containers the position of Hinde & Dauch in the containerboard field has been declining. In such circumstances the dissolution of the merger between St. Lawrence and Hinde & Dauch would not be expected to increase competition significantly in the containerboard market except to the extent that Hinde & Dauch as a buyer of board might encourage competition among possible suppliers. If dissolution led St. Lawrence to encourage the development of independent container plants there might be a significant competitive effect. Similarly, if following dissolution St. Lawrence entered the container field itself, and actively sought business there could be an increase in competition. The latter development however, would involve the same process of integration which has already resulted in the high level of concentration in the industry. The difference would be that integration would be secured by the creation of new producing units rather than by acquisition of existing plants.

It must be remembered further that the process of bringing container plants under the control of board companies has been spread over many years, that several different companies have acquired other companies rather than that the acquisitions have all been made by the same company.

Dissolution of any one merger would not bring about the desired structural change, nor could it restore competition. A number of mergers would need to be dissolved in order to accomplish this end. It would be a matter of great complexity and difficulty to select the mergers that should be dissolved and whose dissolution would be effective, and then to enforce the dissolutions, even assuming that the dissolutions could be secured through

the courts. Finally, under the legal reasoning in the Breweries and Sugar cases, the only merger cases in which there has been judicial analysis of the legal criteria, none of the mergers with which we are here concerned constitutes an offence against the Combines Investigation Act. Therefore, from both the legal and the common sense point of view the Commission considers that dissolution does not afford a practical solution, if in fact it is capable of being used at all. If, however, the Commission should be mistaken in its view of the possibility of securing effective dissolution under the law it would consider that the only course which would offer prospects of creating conditions for the restoration of effective competition in the containerboard and container industries would be the dissolution of all mergers to which the law could be applied.

Apart from dissolution, there is a remedy which in our opinion would afford the public some degree of protection against excessive prices, the limitation of independent sources of containerboard and the concentration of control over the supply of containers, viz., the removal of tariff protection. It is true that on June 24, 1962, as part of its austerity program to meet a financial emergency, the Canadian government increased all customs duties, except General, on both containerboard and shipping containers, by 5 per cent. The result was that, in respect of containerboard, the rate under GATT became  $27\frac{1}{2}$  per cent, and in respect of shipping containers the Most-Favoured-Nation rate became 25 per cent. Nevertheless, apart from considerations occasioned by the present financial emergency, in our opinion the elimination of the tariff on both board and containers may well prove to be the most effective, available, long range remedy to deal with the situation that has developed in this industry.

In normal times the removal of the tariff would lower the ceiling on prices of both board and containers that is set by competition from American imports, actual or potential, and give purchasers of board and containers a stronger bargaining position in dealing with domestic suppliers. The evidence in this inquiry indicates that Canadian board companies normally have set their prices at the highest level that would exclude American imports. One exception was the contract by which MacMillan & Bloedel agreed to supply Martin Paper with board at the American west coast price plus half the Canadian duty. The evidence concerning containers does not show any habitual price setting on this basis, but what has been set out in Section 14 of Chapter V, together with the fact that some American imports do enter Canada from time to time, suggests very strongly that Canadian box prices have been in fact pretty close to those at which American boxes could be laid down in Canada.

The Commission has not had evidence available to indicate the relationship between costs of production of either board or containers in the United States and Canada and therefore cannot form any considered opinion on the matter. Certainly not all the relevant factors would appear



to be on one side of the ledger. In the United States the cost of machines is likely to be lower than in Canada. Again the advantage of longer manufacturing runs, of both board and boxes, made possible by a much larger market, tends to reduce American costs below those in Canada. On the other hand Canadian companies would appear to have an advantage in availability and cost of pulpwood and power, and in somewhat lower wages all along the line from the forest to the shipping container.

We have seen that this industry is among the most profitable in Canada. The fact that MacMillan and Bloedel was able and willing to sell a substantial part of its production of board to Martin Paper at American prices plus one-half the Canadian customs duty indicates that it did not need the full amount of protection given by the duty. It may well be that efficient Canadian board producers need no tariff protection, and the fact that such a large part of their output is now used in their own container plants affords substantial protection of another kind. Again, the fact that Hendershot and Hygrade (and others) could give three to five per cent discounts (sometimes more) to particular customers who purchased substantial portions of those companies' production of containers, and still show a high rate of profit on their operations, indicates that they also did not require the full protection afforded by the tariff. When one remembers that the board companies habitually have taken full advantage of the  $22\frac{1}{2}$  per cent duty on board, and that board constitutes about two-thirds of the total costs of Canadian container manufacturers, it seems likely that efficient container manufacturers can compete successfully with American producers without any tariff protection.

This conclusion is reached in consideration of the following factors:

(1) The effect of the tariff

It is necessary to consider the relative effect of the tariff on containerboard and on shipping containers in assessing the protection afforded the Canadian manufacturer of shipping containers. If full advantage is taken of the customs duties of  $22\frac{1}{2}$  per cent on containerboard then the cost of board to the shipping container plant will be  $22\frac{1}{2}$  per cent higher than the cost of similar board to a shipping container manufacturer in the United States. If we assume that cost of board constitutes two-thirds of the total cost of manufacturing a shipping container then approximately the same proportion of the duty of 20 per cent on shipping containers would be absorbed by the higher cost of containerboard in Canada, leaving about 5 per cent as the tariff protection for costs other than board, in terms of the prices of Canadian container manufacturers. Yet with this real protection of about 5 per cent Canadian container manufacturers have been able to hold practically all the Canadian container market, and though sometimes granting discounts of from 3 per cent to 5 per cent (occasionally more) on substantial portions of their business, have operated on a highly profitable basis, even in the years when there was a premium on Canadian funds.

The foregoing paragraph is based on the tariff rates prior to the emergency increase of June 24, 1962. The argument is not affected by the new rates, which in any event are intended to be temporary.

(2) Other factors

In most of their market, Canadian container manufacturers have the advantage of location. That is, their plants are located nearer to those of their principal customers than are those of foreign suppliers. This gives the Canadian manufacturers two advantages. In the first place their delivery costs on shipments should be lower than the freight costs on imports. Secondly, the Canadian manufacturers should be able to provide better service in terms of prompt and frequent delivery and in terms of meeting the demands of customers for any changes in specifications or quantities of containers. Another factor which is now operative is the premium on U. S. funds, which gives the Canadian manufacturer a substantial advantage over imports from the United States.

If the tariff on containerboard were removed what would be the result? Prices would fall to about the level of the landed cost of American board which, at the present time, would be affected by the premium on U.S. funds. The decline in prices would not, therefore, be as large as in a period when the Canadian dollar was not at a discount in U. S. funds. A decline in the price of Canadian board might be expected to have some effect on the profits of board companies. There is no reason to believe that efficient mills would be unable to compete successfully with American imports. In fact the threat of import competition might well lead to greater efficiency and lower price-cost margins. The end result should be the restoration of effective competition to the containerboard market and lower prices to the public.

With respect to the container market, the abolition of the tariff on board would deprive the integrated producers of the power they now possess to exert pressure on non-integrated container firms that might wish to follow an independent pricing policy. Further, new entrants would not be deterred by doubts about their ability to secure containerboard on terms available to established companies. Thus the removal of the tariff on containerboard would have the effect of encouraging competition in the container market. If effective competition developed, prices would fall.

In the absence of a tariff on containerboard what would be the effect of removing the tariff on shipping containers? Prices would be expected to drop since Canadian prices of containers have been quite close to American prices plus the 20 per cent tariff. The relationship would be affected currently, as in the case of board, by the premium on U. S. funds. Prices would be expected to settle

quite close to the landed cost of American containers, the likely level, in most cases, being slightly above the delivered cost of imported containers because Canadian container plants are close to their main markets and freight charges on containers are a significant part of total cost. The overall result would be an increase in effective competition and the public would benefit from lower prices.

Some further factors may be referred to in regard to the position of container manufacturers if the tariff was removed from shipping containers. As already mentioned Canadian container manufacturers would continue to have the advantage of location as against foreign competitors which would produce benefits not only in terms of delivery costs but also from the viewpoint of offering better service to customers. In addition, as long as the Canadian dollar remains at a discount Canadian container manufacturers would have the protection afforded by this situation. The large extent to which board and container companies are now integrated would also serve to protect the position of container manufacturers. If the board companies found that their container operations were being put in too tight a squeeze between board and container prices they would be able to afford relief by charging for board a price which would enable container operations to be carried on without loss. Any general adjustment in containerboard prices would be available to non-integrated as well as integrated container manufacturers.

The foregoing analysis leads the Commission to the conclusion that the most effective way to restore competitive conditions to both the board and container levels of this industry, from which the public would derive benefit in the form of lower prices, would be the removal of customs duties on both board and containers. We recognize that action along this line may not be feasible during the present financial crisis. Nevertheless, as a policy to be adopted when feasible, and as a remedy for the detriment to the public which we have found to be occasioned by the common system of pricing which has persisted in the board and container industries over many years and by the closing off of opportunities for independent board and container manufacturers through the extensive

series of mergers of board and container companies we recommend the removal of customs duties from containerboard and shipping containers.

(Signed) C. R. Smith

---

Chairman

(Signed) A. S. Whiteley

---

Member

Signed) Pierre Carignan

---

Member

Ottawa,  
August 2, 1962.



APPENDIX I

IDENTIFICATION OF DOCUMENTS

Code Letters	Initials of Officer	Name of Company	Location	Serial Numbers
APT	TW	Acme Paper Products Company Limited	Toronto	24487-24833
2APT	TW	" " " " "	"	97932-100874
BAM	IWH	Bathurst Power & Paper Company Limited	Montreal	14528-16193
2BAM	DR	" " " " "	"	(A25612-A25855 (A27094-A27104
BAN	DR	" " " " "	Bathurst	(A27105-A27249 (A27250-A27251
CBT	TW	Canadian Wirebound Boxes, Limited	Toronto	10591-12571
3CBT	TW	" " " "	"	91386-97931
CBV	JW	Canadian Boxes Limited	Vancouver	9304-9880
2CBV	DR	" " "	"	(75017-75117 (88199-91385
CPO	TW	The Corrugated Paper Box Company, Limited	Toronto	23538-24486
2CPO	DR	" " " " " "	"	25067-25094
3CPO	TW	" " " " " "	"	(A18067-A18756 (A18757-A23273
CPS	NMT	Champlain Paper Box Limited	Quebec	21770-21855
2CPS	TW	" " " "	"	A32506-A34032
CST	DR	Container Statistics Limited	Toronto	5064-7129
2CST	FCG	" " "	"	-
DCT	TW	Dominion Corrugated Paper Company, Limited	Toronto	A25250-A25488
DMA	DR	Direct Mail Advertising Limited	Toronto	25094A-25230
GCL	TW	Gair Company Canada Limited	London	84842-88198
GCT	GM	" " " "	Toronto)	2487-5063
IGCT	GM	" " " "	" )	
2GCT	IM	" " " "	"	(29797-33732 (35818-37407
3GCT	JW	" " " "	"	A18336-A18440
4GCT	JW	" " " "	"	A18441-A18455
HBC	SFS	Hilton Bros. Ltd.	Calgary	A2481-A3132
HBL	JW	" " "	Winnipeg	8719-9303
2HBL	DR	" " "	"	(A178-A1716 (A1717-A2480 (A5437-A11283
HCL	SFS	Hygrade Containers Limited	London	18278-19334
2HCL	TW	" " "	"	76017-84841
HDT	SFS	Hinde & Dauch Paper Company of Canada, Limited	Toronto	12572-14527

IDENTIFICATION OF DOCUMENTS (continued)

<u>Code</u> <u>Letters</u>	<u>Initials</u> <u>of</u> <u>Officer</u>	<u>Name of Company</u>	<u>Location</u>	<u>Serial</u> <u>Numbers</u>
2HDT	DR	Hinde & Dauch Paper Company of Canada, Limited	Toronto	24834-25066
3HDT	DR	" " " " "	"	25980-29797
4HDT	SFS	" " " " "	"	A18067-A18335
HPH	SFS	Hendershot Paper Products Limited	Hamilton	17775-18277
2HPH	IM	" " " "	"	43553-48657
KCH	DR	Kraft Containers Limited	Hamilton	19335-20083
2KCH	IM	" " " "	"	(33733-35817 37408-43552)
LCM	IWH	St. Lawrence Corporation Limited	Montreal	20350-21060A
2LCM	DR	" " " "	"	A25489-A25611
LCN	DR	" " " "	Three Rivers	A25856-A25913
LCO	DR	" " " "	East Angus	A25914-A26316
MHP	GM	Martin-Hewitt Containers Limited	Peterborough	20084-20349
2MHP	TW	" " " "	"	A23274-A25249
MPA	DR	Martin Paper Products Limited	Calgary	25231-25611
2MPA	DR	" " " "	"	(A1-A177 A3133-A5436)
MPE	DR	" " " "	Edmonton	25612-25644
MPP	JW	" " " "	St. Boniface	7130-8718
2MPP	DR	" " " "	"	A11284-A15089
MPH	IM	Maritime Paper Products Limited	Halifax	22575-23537
2MPH	TW	" " " "	"	(A26904-A27093 A28584-A30487)
SBW	DR	Superior Box Company Limited	Waterloo	9881-10590
2SBW	IM	" " " "	"	A15090-A18066
SPB	IWH	Standard Paper Box Mfg. Limited	Montreal	16194-17774
2SPB	TW	" " " "	"	(55125-60716 69401-76016)
SPL	IWH	Shipping Containers Limited	Montreal	21061-21572
2SPL	NMT	" " " "	"	21573-21769
3SPL	RWM	" " " "	"	(48658-55124 60717-69400)
SPP	NMT	Sherbrooke Paper Products Limited	Sherbrooke	22172-22574
2SPP	TW	" " " "	"	A34033-A35133
WBF	NMT	Wilson Boxes, Limited	Lancaster	21856-22171
2WBF	TW	" " " "	"	(A26317-A26903 A30488-A32505)

## APPENDIX II

### DESCRIPTION OF COMPANIES

This Appendix gives brief descriptions of the companies and the individual against whom the allegations are made in the Statement of Evidence.

Container Statistics Limited, (in this report sometimes referred to as Container Statistics), was incorporated in 1947 and has its head office in the City of Toronto.

F. C. Hayes was the President and beneficial owner of Container Statistics from its incorporation. He was a third party to standard contracts which were the formal expression of the relations between Container Statistics and its clients. In his personal capacity he provided to the companies which did not enter into a standard contract the same services as those performed directly by Container Statistics for the others. In so doing, he used the facilities of Container Statistics, its materials, supplies and information. Until 1945 he was a Vice-President of Shipping Containers Limited. When wartime price control ended he organized Container Statistics and thereafter the management of this company was his full-time occupation.

Acme Paper Products Company Limited, (in this report sometimes referred to as Acme), of 388 Carlaw Avenue, Toronto, Ontario, is a manufacturer of linerboard and corrugating medium as well as of corrugated shipping containers and other products. Its factory is located at the same address as its head office and there it manufactures containerboard for its own use in the manufacture of corrugated shipping containers and related products, which it sells through salesmen to the users of such shipping containers. This company is owned by the Oelbaum family of Toronto, who were also the owners of O. & S. Corrugated Products Company. As of January 31, 1947, the company purchased the assets of O. & S. Corrugated Products Company and has used them ever since in its business.

Bathurst Power & Paper Company Limited, (in this report sometimes referred to as Bathurst), has its head office at Bathurst, New Brunswick. It is engaged in the manufacture of containerboard grades of paperboard and other products, which it manufactures at its mills located at Bathurst, New Brunswick. Its return of information to the Director, of August 19, 1955 states that it is not a subsidiary of another company, neither is it controlled by another company by reason of financial or management relationships. The returns of information made to the Director by Power Corporation of Canada, Limited on July 19 and 23, 1956 and by its related company, Canadian Power & Paper Securities Limited of July 23, 1956 establish that these two companies jointly control Bathurst.

The returns of information referred to do not disclose who are the beneficial owners of the two "Power" companies, but they show that Nesbitt Thomson & Company Limited has large interests in both and that each has a financial interest in the other. As to the ownership interest in Bathurst, the returns show the following holdings, as of July 1956:

CAPITAL STOCK OF BATHURST

	Issued <hr/>	Held by Power Corporation of Canada, Limited	Held by Canadian Power & Paper Securities Limited
Common Class "A"	400, 000	46, 875	6, 375
Common Class "B"	325, 000	153, 725	23, 975

The first column of this table, which is the same as reported for an earlier date in the company's return of information, has been taken from the Financial Post, Survey of Industrials, which analyses the company's annual reports, balance sheets and other information, and which shows no change in the issued capital stock for years. This publication also states that the controlling interest in Bathurst was held by Nesbitt Thomson & Company Limited and associates. It also describes the two classes of stock, to the effect that voting rights attach only to Class "B" unless the company plans to sell its assets as an entirety.

As of January 1955, Bathurst had the following Directors in common with Power Corporation:

J. B. Woodyatt  
P. A. Thomson  
Joseph A. Simard  
R. L. Weldon



Other Directors included two employees of Bathurst and there were three others. R.L. Weldon, President, and P.A. Thomson, Vice-President, of Bathurst had held these offices continuously since before 1939.

The Financial Post, Survey of Industrials, 1961, (p.278) gives the following list of Directors:

R. L. Weldon, chm.,  
R. A. Irwin, pres.,  
A. D. Nesbitt,  
Joseph Simard,  
J. B. Woodyatt,  
P. N. Thomson, Montreal;  
J. G. Chalmers, Bathurst;  
G. McMillan, Q. C.;  
Hon. R. H. Winters, Toronto;  
E. M. Little, Quebec City;  
Hon. G. P. Burchill,  
Sec. - E. S. Kirkland.  
Treas. - A. F. D. Campbell.

The Survey of Industrials, 1961 (p.278) says further:  
"Controlling interest held by Nesbitt, Thomson & Co. and associates."

According to Returns of Information made to the Director, Bathurst has also had directors in common with other producers and potential producers of containerboard. Dryden Paper Company Limited commenced production of this product in 1950. Before and after that time, until its acquisition by Anglo-Canadian Pulp and Paper Mills Limited in 1953, Messrs. Woodyatt and P. A. Thomson sat on the boards of Power Corporation, Bathurst and Dryden, and vacated their seats on the Dryden board in 1953-54. From 1949 to 1960 E. M. Little, the President and later Chairman of the Board of Anglo-Canadian was on the boards of both Bathurst and Dryden. He retired from the boards of Dryden and Anglo-Canadian after control of Anglo-Canadian was acquired by Albert E. Reed & Company Ltd. of England in 1960 and became a director of the latter company. R. G. Ivey, as well as being a director of Bathurst until 1955, also sat on the boards of Canadian International Paper Company and Container Corporation of America. The former is a Canadian subsidiary of the International Paper Company, the largest paper-making organization in the world, and the latter is the largest manufacturer of paperboard products. Both are engaged in the U. S. in the manufacture of containerboard and shipping containers. Mr. Ivey retired as a director of Bathurst after C. I. P. acquired Hygrade in 1955.

Bathurst also engages in the manufacture of corrugated shipping containers and related products, using the facilities of the

subsidiaries which it began acquiring in 1945. These subsidiaries are as follows:

Wholly-owned

Canadian Wirebound Boxes, Limited  
Kraft Containers Limited  
Shipping Containers Limited  
Norwood Box Co. Ltd.

Large Minority Holding

Maritime Paper Products Limited.

During the period up to about the spring of 1954, the subsidiaries of Bathurst sold their products under their own names. Beginning on January 1, 1955, Bathurst reorganized its activities and as of January 1, 1955 set up a Container Division of the company to sell shipping containers as agent for its subsidiaries. The subsidiary companies were subject to Bathurst's management policy, however, from the time each of them became a subsidiary. The subsidiaries continued to have a separate corporate existence and keep separate account of their finances, and the management of them by Bathurst was carried on by virtue of written agreements.

Bathurst Paper Sales Limited was incorporated on December 20, 1957 as a wholly-owned subsidiary of Bathurst Power & Paper Company Limited to handle distribution of its paper products.

Commencing January 1, 1958 the functions of the Container Division were consolidated under the one corporate entity, Bathurst Containers Limited, a wholly-owned subsidiary of Bathurst Power & Paper Company Limited. Bathurst Containers Limited was formerly Canadian Wirebound Boxes Limited (Return of Information of Bathurst Containers Limited to the Commission, July 14, 1961). It was Bathurst Containers Limited which acquired Norwood. In 1960, Wilson Boxes Limited was acquired.

Canadian International Paper Company (sometimes referred to in this report as C.I.P.) which has its head office in Montreal, P.Q., is a wholly-owned subsidiary of International Paper Company. The latter is incorporated in the State of New York and has its executive offices in New York City. C.I.P. itself has several mills located in the Provinces of Quebec, Ontario and New Brunswick. The company itself

or its subsidiaries manufacture newsprint, sulphite and sulphate wood pulps, dissolving wood cellulose, kraft board and paper, fibre boards, hardboard, hardwood plywood, lumber, and converted paper and other products.

In late 1954, C.I.P. acquired from Brown Corporation certain properties including a kraft mill at La Tuque, P. Q. In March 1956 C.I.P. made its first shipment of kraft board from the La Tuque plant. In 1959, C.I.P. began to ship high yield sulphite corrugating medium from its mill at Gatineau, P.Q., and in 1960 from its mill at Hawkesbury, Ontario, also.

C.I.P. had begun construction of a shipping container plant at Point aux Trembles (Montreal) sometime prior to May of 1955. C.I.P. completed transactions which gave it possession of all the shares of Hygrade in May 1955. Hygrade purchased the unfinished Point aux Trembles plant from C.I.P. in April 1956. In early 1960 C.I.P. completed transactions which gave it control of Hendershot.

Canadian Boxes Limited, (in this report sometimes referred to as Canadian Boxes), has its head office in the City of Vancouver. It has manufactured corrugated shipping containers and related products since about 1926. In 1945 it was acquired by Pacific Mills which in August 1954 adopted the name of Crown Zellerbach Canada Limited. In 1955 and at the beginning of 1956 Canadian Boxes and its parent company operated two shipping container plants in Vancouver, one manufacturing corrugated containers, the other solid fibre containers. In March 1956 these plants were consolidated together with other converting operations into one new plant at Richmond, British Columbia. In mid-1958 Crown Zellerbach opened a small finishing plant at Kelowna in the Okanagan Valley of British Columbia. The Kelowna plant's production consists almost exclusively of boxes for the fruit industry. The company distributes the bulk of its manufactured products by selling them directly to users, but a very small amount is sold through distributors and some six per cent through agents. While the company has solicited business in all parts of Canada as far east as Ontario, and has also sold for export, the bulk of its business has been in the Provinces of British Columbia and Alberta. Canadian Boxes Limited ceased operations in 1956 when its equipment was taken over by the parent company and moved to Richmond.

Canadian Wirebound Boxes, Limited, (in this report sometimes referred to as Canadian Wirebound), having its head office at Toronto, Ontario, engaged in the manufacture of corrugated shipping containers and related products and of wirebound boxes and allied wood products. It sold corrugated shipping containers through its own sales organization direct to users, chiefly in the Provinces of Ontario and Quebec, but to some extent in the Maritime Provinces and Newfoundland.

Until October 1, 1954 the company was owned independently of any other company but as of that date it was acquired by Bathurst. As of January 1, 1955 the operations of the company were correlated with those of Shipping Containers and Kraft Containers to form a Container Division of Bathurst Power & Paper Company Limited, the latter becoming the selling and distributing agent of Canadian Wirebound. On January 1, 1958 the function of the Container Division was consolidated under the one corporate entity, Bathurst Containers Limited, a wholly-owned subsidiary of Bathurst Power & Paper Company Limited. From the beginning of the period under study in this inquiry until April 1956 Canadian Wirebound operated two plants, one in Montreal and one in Toronto. In April 1956 a new plant came into operation at Whitby, Ontario.

Champlain Paper Box Limited, (in this report sometimes referred to as Champlain), is a manufacturer of folding and set-up boxes, corrugated shipping containers and related products, whose head office and factory are located in the City of Quebec. It first began to produce corrugated shipping containers in the year 1949 and from that time onward its affairs were conducted in its own name by Dominion Containers Limited pursuant to a management agreement. Financial control of the company was acquired by C. N. Moisan Jr. and T. A. Moisan, President and Secretary-Treasurer, respectively, of Dominion Containers Limited in February 1955. Champlain's selling policies were set by the management of Dominion Containers Limited. The company sells through its own selling organization direct to the users of corrugated shipping containers. It sells shipping containers in the Province of Quebec and in the Maritimes.

The Corrugated Paper Box Company, Limited, (in this report sometimes referred to as Corrugated Paper Box), had its head office and factory in the City of Toronto, Ontario. It engaged in the manufacture of corrugated shipping containers and related products, which it sold direct to users mostly in the Province of Ontario. Throughout the period 1947-54 it had one wholly-owned subsidiary, Hilton Bros. Ltd., of Winnipeg. It was an independently-owned company until acquired



by Hinde & Dauch Paper Company of Canada, Limited in July 1954.

Crown Zellerbach Canada Limited, (in this report sometimes referred to as Pacific Mills or Crown Zellerbach), has its head office in the City of Vancouver and produces containerboard in its mill at Ocean Falls, British Columbia. It is a subsidiary of the United States company of similar name. Its present name was adopted in August 1954, after the company had done business for many years under the name of Pacific Mills, Limited. It is engaged in the manufacture of containerboard grades of paperboard, as well as of other grades of paper and wood pulp. The bulk of its production of containerboard has been used in the operations of its subsidiary, Canadian Boxes, or, after the latter ceased manufacturing, in its own converting plants. In some years it was also an important supplier of Martin Paper Products Limited's Calgary and New Westminster branches.

Dominion Corrugated Paper Company Limited, (in this report sometimes referred to as Dominion Corrugated), has its head office and factory in the City of Toronto. It has not engaged in the manufacture of shipping containers but produces corrugated sheets and rolls. It subscribed to the services of Container Statistics until 1952 but did not continue its association with that organization after that year.

Dominion Containers Limited, (in this report sometimes referred to interchangeably as Dominion Containers or Standard), is a manufacturing and holding company, having selling subsidiaries including Standard Paper Box Mfg. Limited, which since January 1, 1953 has operated as the selling company for corrugated shipping containers and related products made by Dominion Containers. From January 1, 1939 until December 31, 1952 it was the parent company of Standard Paper Box Limited.

Dominion Containers has its head office in the City of Montreal and there operates a factory for the production, among other things, of corrugated shipping containers and related products. It sells them to users through its own sales staff in the name of Standard Paper Box Mfg. Limited. The majority of the company's sales are in the Province of Quebec, but some are also made in Eastern Ontario.

Gair Company Canada Limited, (in this report sometimes referred to as Gair), had its head office in the City of Toronto and factories at Toronto and Montreal, where jute board is manufactured, as well as others in

Toronto, Montreal and London, where corrugated shipping containers and related products are made. Until about 1952 it also manufactured solid fibre-board shipping containers at Toronto. These products were sold direct to users of shipping containers by the company's sales organization. Sales are principally in the Ontario and Quebec market.

Throughout most of its history the company was a wholly-owned subsidiary of Robert Gair Company, Inc., a pioneer in the field of paperboard and paperboard shipping containers in the United States. On October 26, 1956 Robert Gair Company, Inc. was merged with Continental Can Co., Inc., the second-largest U. S. producer of metal caps and fibre drums and a leader in related fields. Gair thus became a wholly-owned subsidiary of Continental Can Co., Inc., which also has another wholly-owned subsidiary, Continental Can Company of Canada, Limited, a very large user of corrugated shipping containers. The Canadian Continental Can Company was in 1954 at least, one of the largest individual customers for corrugated shipping containers of Hygrade Containers Limited, Kraft Containers Limited, and Shipping Containers Limited. It had never been a significant buyer from Gair, and this was still the case as of March 1957. Up until December 31, 1958 Gair Company Canada Limited was an operating company. From January 1, 1959 all business was done as The Gair Division of Continental Can Company of Canada Limited.

Hendershot Paper Products Limited, (in this report sometimes referred to as Hendershot), had its head office in the City of Hamilton, Ontario. It was incorporated in March 1946 for the purpose of acquiring all the assets of The G. W. Hendershot Corrugated Paper Company Limited. The company sold its products through its own selling organization almost entirely in the Province of Ontario. During most of the period covered by the investigation it was controlled by Montor Industrial Corporation Limited, a subsidiary of Mindus Corporation Limited, of Toronto, which was a holding company under the control of Masters Smith and Company Limited, of Toronto. Mindustrial Corporation Ltd. acquired all the industrial assets of Mindus Corporation Ltd. under the name of Montor Industrial Corporation Limited.

During late 1959 and early 1960 Mindustrial Corporation Limited made arrangements to sell its shares in Hendershot to Canadian International Paper Company, and the latter arranged to buy not only Mindustrial's holdings but Hendershot shares from the public as well. On February 2, 1960 Hendershot announced its acquisition by Canadian International Paper Company.

The return of information made to the Director on June 3, 1955 indicates that at that time Hendershot owned two plants in Hamilton,

Ontario of which it operated only one, manufacturing corrugated shipping containers, sheets and rolls and in addition certain other products not subject to this inquiry. The other plant, purchased in 1954, was used exclusively for storage of inventory. The return of information made to the Commission in January 1961 indicates that since March 1958 Hendershot has been in possession of a new plant in Burlington, Ontario. The two Hamilton plants were sold in 1958 and 1959.

Hilton Bros. Ltd., (in this report sometimes referred to as Hilton), had its head office in the City of Winnipeg and as of June 1955 had a factory located at Winnipeg and a recently-opened factory at Calgary. Its principal production was corrugated shipping containers and related products. These were sold direct to users in the three Prairie Provinces and Northwestern Ontario from the Head of the Lakes westward. As indicated above, Hilton was a wholly-owned subsidiary of Corrugated Paper Box and as such was acquired by Hinde and Dauch Paper Company of Canada, Limited in 1954.

Hinde and Dauch Paper Company of Canada, Limited, (in this report sometimes referred to as Hinde & Dauch), has its head office in the City of Toronto, Ontario. As of June 1956 it had factories at Toronto for the manufacture of containerboard and corrugated shipping containers and related products, at Trenton for the manufacture of strawboard for corrugating medium, and at Montreal and Chatham for the manufacture of corrugated shipping containers and related products. It also manufactured some solid fibreboard shipping containers. The major part of its output of containerboard was used in its own converting operations, and an increasingly small amount was sold to other converters. It sold its corrugated shipping containers directly to users, principally in the Provinces of Ontario and Quebec. Sales to other provinces were less than one per cent of total sales. In 1954 the company acquired wholly-owned subsidiaries engaged in the production of corrugated shipping containers, these being Corrugated Paper Box with its subsidiary Hilton, and Martin-Hewitt Containers Limited, of Peterborough, Ontario.

Throughout most of its history it has been a subsidiary of Hinde & Dauch Paper Company, of Sandusky, Ohio which company was a pioneer in the development of the containerboard and shipping container industry in the United States. The U. S. Hinde & Dauch Paper Company merged with West Virginia Pulp & Paper Co., of New York in 1953. West Virginia is an integrated pulp and paper company, being one of the largest U. S. producers of white papers and an important factor in the kraft paper and paperboard fields and the various products related thereto. In 1959 West Virginia sold its holdings in Hinde & Dauch to St. Lawrence Corporation Limited.



The return of information made to the Commission in 1961 indicates that Hinde & Dauch in early 1961 had corrugated shipping container manufacturing plants in Montreal, Peterborough, Etobicoke, Ontario, St. Mary's, Ontario (which began operating in June, 1958), Winnipeg and Calgary and a solid fibre shipping container plant in Toronto. It indicates also that machinery was moved out of the Chatham, Ontario plant in 1960 and 1961 and that a plant under construction in Moncton, New Brunswick was expected to be in operation in April 1961. Throughout the period 1955-60 Hinde & Dauch has manufactured jute linerboard and container chip at its Toronto containerboard mill, and semi-chemical corrugating medium at its Trenton containerboard mill.

Hygrade Containers Limited, (in this report sometimes referred to as Hygrade), has its head office in London, Ontario, and when its return of information was made in February 1956 it had one factory located in the same city. There it made corrugated shipping containers and related products, which it sold through its own sales staff, principally in the Province of Ontario. The company was incorporated in December 1950 to take over the operations of its predecessor company, Hygrade Corrugated Products Limited, (also referred to herein as Hygrade), whose charter was surrendered on March 16, 1953. The incorporation of the new company, however, was not accompanied by any substantial changes in operations, management or, from the point of view of this investigation, ownership.

Both Hygrade companies were owned by private investment companies which were owned and controlled by Mr. R. G. Ivey of London, Ontario, and/or by members of his family, until the surviving Hygrade was acquired in 1955 by Canadian International Paper Company.

Hygrade's return of information made to the Commission in 1961 indicates that Hygrade brought shipping container plants into operation in Montreal in May 1956, Toronto in May 1957, and St. John's, Newfoundland in September 1959. It also indicates that in addition to corrugated paperboard shipping containers and corrugated sheets and rolls, the company has manufactured a small volume of solid fibreboard shipping containers.

Kraft Containers Limited, (in this report sometimes referred to as Kraft Containers), had its head office in Hamilton, Ontario when the return of information was made to the Director on August 19, 1955. It has been a subsidiary of Bathurst since January 1, 1946. The company's factory was at Hamilton, Ontario. There it made corrugated shipping containers and related products which, prior to January 1, 1955 were sold by its own sales organization direct to users of shipping containers, principally in the Province of Ontario. As of January 1, 1955 Kraft Container's operations and other activities were correlated with those of Shipping Containers Limited and Canadian Wirebound to form a Container Division



of Bathurst, as explained above. Since the consolidation of the function of the Container Division under Bathurst Containers Limited on January 1, 1958 Kraft Containers has been inactive.

MacMillan & Bloedel Limited, (in this report sometimes referred to as MacMillan & Bloedel or MacMillan), was in the period covered by this inquiry engaged in logging and the manufacture of lumber, shingles, plywood, doors, sulphate pulp, newsprint, kraft paper, kraft board and bags. Its head office was in Vancouver. In 1957 it began the manufacture of kraft board at Port Alberni. On January 1, 1958 it acquired from Powell River Company Limited a 50 per cent interest in Martin Paper Products Holdings Limited. Powell River Company Limited, (in this report sometimes referred to as Powell River), had its head office in Vancouver and manufactured newsprint (directly and also through subsidiaries), sulphite pulp, lumber, wrapper products and laminated products. In April 1954 it acquired control of Martin Paper Products Limited and subsequently changed the latter's name to Martin Paper Products Holdings Limited.

On December 31, 1959 MacMillan & Bloedel amalgamated with Powell River Company Limited, the latter being chosen as the parent company and re-named MacMillan, Bloedel and Powell River Limited. In April 1960 the company acquired Sidney Roofing & Paper Company Limited.

Maritime Paper Products Limited, (in this report sometimes referred to as Maritime), is a holding company having its head office at Halifax, Nova Scotia. It exists for the purpose of holding the capital stock of its operating subsidiary, Industrial Containers Limited, and of acting as agent therefor. Industrial Containers Limited was incorporated when the former Maritime Paper Products Limited was acquired by new owners and wound up. Industrial Containers Limited has one plant, also located at Halifax, where it manufactures corrugated shipping containers. All the correspondence of Industrial Containers Limited is conducted on the letterhead of Maritime and all the company's invoices for its sales of shipping containers are issued by Maritime. Throughout the report these two companies, as well as the predecessor of Industrial Containers Limited, are sometimes collectively referred to as Maritime Paper Products Limited or Maritime.

Distribution of the company's products has been carried on through its own sales organization, and domestic sales have been largely confined to the Atlantic Provinces although in 1960 some shipments were made to Montreal. Some export sales to the British West Indies have also been made.

Maritime is jointly owned by Bathurst and Minas Basin Pulp and Paper Company Limited, its shares having been acquired by these companies in December 1958.

Martin-Hewitt Containers Limited, (in this report sometimes referred to as Martin-Hewitt), had its head office at Peterborough, Ontario, and maintained a factory there for the production of corrugated shipping containers and related products. It sold these products directly to users, principally in the Province of Ontario, although during the years 1930 to 1950 it also sold boxes to the Saskatoon branch of the Quaker Oats Company of Canada Limited. The company was independently-owned by Mr. H. Martin of Peterborough, deceased, or his family until January 1954, when it was acquired by Hinde & Dauch.

Martin Paper Products Limited, (which with its successors and subsidiaries is sometimes referred to in this report as Martin Paper), had its head office in the City of St. Boniface, Manitoba, and as of the date of its return of information, made in May 1955, it had factories in Winnipeg, Calgary and Edmonton, and a subsidiary called Martin Paper Products (B.C.) Limited with a factory in New Westminster. These plants produced corrugated shipping containers and related products and sold these through the company's own selling organization, principally in the three Prairie Provinces and in Northwestern Ontario, and also in British Columbia since the establishment of the New Westminster factory in 1955. The sales were made direct to users of shipping containers. Until March 1954 the company was owned and controlled by the late Mr. John Martin of Winnipeg or by members of his family. All its share capital was then acquired by Powell River Company Limited. In 1955 the Manitoba company's name was changed to Martin Paper Products Holdings Limited. The operating company now has its head office in Vancouver and is incorporated under British Columbia law.

As noted above, Martin Paper Products Limited was acquired by Powell River Company Limited in April 1954, the name subsequently being changed to Martin Paper Products Holdings Limited. As of March 27, 1958 Powell River sold a 50 per cent interest in the re-named company to MacMillan & Bloedel Limited. At the end of 1959 MacMillan & Bloedel Limited and Powell River Company Limited amalgamated. The latter became the parent company and was re-named MacMillan, Bloedel and Powell River Limited.

Martin Paper's return of information made to the Commission in early 1961 showed that it had plants in New Westminster, Calgary, Edmonton, Regina and Winnipeg. The Regina plant made its first shipments in 1959.

Minas Basin Pulp and Power Company Limited (sometimes referred to in this report as Minas Basin) has its head office and its mills at Hantsport, N. S. In 1961 it manufactured groundwood pulp, jute linerboard and a small amount of jute corrugating medium, as well as pulpboard, boxboard, chipboard and some other paper products.

Minas Basin began the manufacture of shipping case materials in 1950 and since then the overwhelming part of its sales of these materials has been made to Maritime. Minas Basin's return of information indicates that on December 12th, 1958 it was the registered holder of 8,300 common shares of Maritime. According to The Financial Post Survey of Industrials, 1961 (pp.263 and 271) the following persons were directors of both Maritime Paper Products Limited and Minas Basin: J. J. Jodrey, L. G. Bishop, J. H. M. Jones and K. L. Crowell. Although this source indicates F. A. Covert as President of Maritime, Maritime's return of information shows that the President of the latter is F. M. Covert. The latter is also a director of Minas. Thus there are five directors common to the two companies.

St. Lawrence Corporation Limited, (in this report sometimes referred to as Brompton or as St. Lawrence), is an integrated pulp and paper producer, having its head office in the City of Montreal. It manufactures containerboard at East Angus, Quebec, and at Red Rock, Ontario, most of the production being at the latter mill. Between the dates January 1, 1939 and January 1, 1952 St. Lawrence was an investment-holding company, which controlled amongst other things the shares of Brompton Pulp & Paper Company Limited, which was the producer of the containerboard grades of paperboard at East Angus, Quebec, and Red Rock. St. Lawrence then purchased all of the assets of Brompton and undertook all its liabilities, and thereafter conducted the business of manufacturing and selling containerboard grades of paperboard under its own name. The name of Brompton, however, continued to be associated with this business and sometimes, after the effective date of the change, correspondence continued to be addressed to Brompton. In this report the abbreviations Brompton and St. Lawrence are used interchangeably to refer to either company. The Red Rock mill was not opened until the year 1946 and prior to that date all the production of containerboard grades was carried on at East Angus, Quebec. St. Lawrence did not directly or indirectly engage in the converting of containerboard grades into shipping containers until

June 1, 1959 when it became the largest shareholder of Hinde & Dauch.

The return of information made to the Commission in 1961 shows that in the period 1955-60 the Red Rock Mill produced kraft linerboard and kraft corrugating medium and the East Angus Mill produced kraft linerboard, jute linerboard and semi-chemical corrugating medium. Both mills produced for export as well as for the domestic market.

Sherbrooke Paper Products Limited, (in this report sometimes referred to as Sherbrooke), has its head office in the City of Sherbrooke and until February 1960 maintained a factory there for the manufacture of corrugated shipping containers and related products. In February 1960 the whole operation was transferred from Sherbrooke to La Salle, a suburb of Montreal. The company was incorporated in 1951 and began production late in 1952. It sells its products direct to users through its own sales force and also through that of the Kruger organization. The beneficial owners of the common stock of the company are Messrs. G. H. Kruger and B. J. Kruger. Sales have been made almost entirely in the Province of Quebec.

Shipping Containers Limited, (in this report sometimes referred to as Shipping Containers), had its head office in the City of Montreal, where it operated a factory for the production of corrugated shipping containers and related products. For many years it was owned and operated by the Hayes family, of which Mr. F. C. Hayes was a member. It sold its products chiefly to users, largely in the Province of Quebec but to some extent in Ontario and Newfoundland. The company was acquired in 1945 by Bathurst.

As of January 1, 1955 Shipping Container's operations and activities were correlated with those of Kraft Containers Limited and Canadian Wirebound Boxes Limited to form a Container Division of the parent company, Bathurst Power & Paper Company Limited, which parent company then became the distribution and sales agent of Shipping Containers Limited. On January 1, 1958 the function of the Container Division was consolidated into Bathurst Containers Limited as a wholly-owned subsidiary of Bathurst Power & Paper Company Limited. Since January 1, 1958 therefore, Shipping Containers Limited has been inactive. On April 20, 1959 the name of the company was changed to Canadian Wirebound Boxes & Shipping Containers Limited.

In 1955 Shipping Containers had two plants, one located at 155 Beaubien Street East, Montreal, the other at 1085 Hodge Street, St. Laurent, Quebec. The former was sold on October 14, 1955.



Superior Box Company Limited, (in this report sometimes referred to as Superior), has its head office in the City of Kitchener, Ontario. The return of information to the Director indicated that Superior had a factory at Waterloo, where it manufactured corrugated shipping containers and related products as well as set-up and folding boxes. It distributed its shipping containers through its own selling organization to users located principally within a 70-mile radius of Waterloo. Throughout the period covered by this inquiry the company was owned by the family of Mr. A. R. Kaufman of Kitchener, and was managed by Mr. Ira Good. The return of information made to the Commission in 1961 indicates that the plant was moved from Waterloo to Kitchener in October 1957.

Wilson Boxes, Limited, (in this report sometimes referred to as Wilson), had its head office in the City of Lancaster, near Saint John, New Brunswick. There it maintained a factory for the manufacture of corrugated shipping containers and related products. It was owned and operated by the family of Mr. F. L. Roderick, deceased. Its products were sold in the Maritime Provinces, and occasionally in Quebec, through its own sales force directly to users. It was acquired by Bathurst in 1960.

Comparison of the "Continental" Metallurgical Practice Manuals, 1940, 1955 and 1955-56 Issues

SCHEDULE II, page 1

Material (per M sq. ft.)	Test	1950 Issue			1955 Issue			1955-56 Issue		
		Ontario- Quebec Marillone	Manitoba- Saskatchewan Marillone	British Columbia	Ontario- Quebec Marillone	Manitoba- Saskatchewan Marillone	British Columbia	Ontario- Quebec Marillone	Manitoba- Saskatchewan Marillone	British Columbia
Single Roll 60 lb. - 100 lb.	26 lb. - 209 47 " - 109	4.54 5.78	4.02 5.83	4.13 5.13	4.51 6.00	4.02 5.40	5.13 5.84	5.60 7.34	5.60 7.34	5.94 7.77
Single Roll 100 lb. - 120 lb.	26 lb. - 209-26 lb. 47 " - 109-26 lb.	6.20 7.42	6.39 7.62	6.14 7.34	6.53 7.81	6.02 8.36	7.50 8.58	8.80 10.59	8.07(c) 10.59	8.31 11.21
Double Roll 60 lb. - 100 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	8.56 9.78	8.16 9.16	8.74 9.74	9.30 10.45	9.46 10.65	10.65 11.85	11.41 13.17	11.41 13.17	11.41 13.17
Double Roll 100 lb. - 120 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	11.16 12.38	11.26 12.37	10.96 12.37	11.56 12.66	12.42 13.52	13.72 14.82	13.97 15.47	13.97 15.47	13.97 15.47
Double Roll 120 lb. - 140 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	13.16 14.38	13.26 14.39	12.97 14.39	13.66 14.97	14.52 15.62	15.82 16.92	16.27 17.77	16.27 17.77	16.27 17.77
Double Roll 140 lb. - 160 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	15.16 16.38	15.26 16.39	14.97 16.39	15.66 16.97	16.52 17.62	17.82 18.92	18.27 19.77	18.27 19.77	18.27 19.77
Double Roll 160 lb. - 180 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	17.16 18.38	17.26 18.39	16.97 18.39	17.66 18.97	18.52 19.62	19.82 20.92	20.27 21.77	20.27 21.77	20.27 21.77
Double Roll 180 lb. - 200 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	19.16 20.38	19.26 20.39	18.97 20.39	19.66 20.97	20.52 21.62	21.82 22.92	22.27 23.77	22.27 23.77	22.27 23.77
Double Roll 200 lb. - 220 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	21.16 22.38	21.26 22.39	20.97 22.39	21.66 22.97	22.52 23.62	23.82 24.92	24.27 25.77	24.27 25.77	24.27 25.77
Double Roll 220 lb. - 240 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	23.16 24.38	23.26 24.39	22.97 24.39	23.66 24.97	24.52 25.62	25.82 26.92	26.27 27.77	26.27 27.77	26.27 27.77
Double Roll 240 lb. - 260 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	25.16 26.38	25.26 26.39	24.97 26.39	25.66 26.97	26.52 27.62	27.82 28.92	28.27 29.77	28.27 29.77	28.27 29.77
Double Roll 260 lb. - 280 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	27.16 28.38	27.26 28.39	26.97 28.39	27.66 28.97	28.52 29.62	29.82 30.92	30.27 31.77	30.27 31.77	30.27 31.77
Double Roll 280 lb. - 300 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	29.16 30.38	29.26 30.39	28.97 30.39	29.66 30.97	30.52 31.62	31.82 32.92	32.27 33.77	32.27 33.77	32.27 33.77
Double Roll 300 lb. - 320 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	31.16 32.38	31.26 32.39	30.97 32.39	31.66 32.97	32.52 33.62	33.82 34.92	34.27 35.77	34.27 35.77	34.27 35.77
Double Roll 320 lb. - 340 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	33.16 34.38	33.26 34.39	32.97 34.39	33.66 34.97	34.52 35.62	35.82 36.92	36.27 37.77	36.27 37.77	36.27 37.77
Double Roll 340 lb. - 360 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	35.16 36.38	35.26 36.39	34.97 36.39	35.66 36.97	36.52 37.62	37.82 38.92	38.27 39.77	38.27 39.77	38.27 39.77
Double Roll 360 lb. - 380 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	37.16 38.38	37.26 38.39	36.97 38.39	37.66 38.97	38.52 39.62	39.82 40.92	40.27 41.77	40.27 41.77	40.27 41.77
Double Roll 380 lb. - 400 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	39.16 40.38	39.26 40.39	38.97 40.39	39.66 40.97	40.52 41.62	41.82 42.92	42.27 43.77	42.27 43.77	42.27 43.77
Double Roll 400 lb. - 420 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	41.16 42.38	41.26 42.39	40.97 42.39	41.66 42.97	42.52 43.62	43.82 44.92	44.27 45.77	44.27 45.77	44.27 45.77
Double Roll 420 lb. - 440 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	43.16 44.38	43.26 44.39	42.97 44.39	43.66 44.97	44.52 45.62	45.82 46.92	46.27 47.77	46.27 47.77	46.27 47.77
Double Roll 440 lb. - 460 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	45.16 46.38	45.26 46.39	44.97 46.39	45.66 46.97	46.52 47.62	47.82 48.92	48.27 49.77	48.27 49.77	48.27 49.77
Double Roll 460 lb. - 480 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	47.16 48.38	47.26 48.39	46.97 48.39	47.66 48.97	48.52 49.62	49.82 50.92	50.27 51.77	50.27 51.77	50.27 51.77
Double Roll 480 lb. - 500 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	49.16 50.38	49.26 50.39	48.97 50.39	49.66 50.97	50.52 51.62	51.82 52.92	52.27 53.77	52.27 53.77	52.27 53.77
Double Roll 500 lb. - 520 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	51.16 52.38	51.26 52.39	50.97 52.39	51.66 52.97	52.52 53.62	53.82 54.92	54.27 55.77	54.27 55.77	54.27 55.77
Double Roll 520 lb. - 540 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	53.16 54.38	53.26 54.39	52.97 54.39	53.66 54.97	54.52 55.62	55.82 56.92	56.27 57.77	56.27 57.77	56.27 57.77
Double Roll 540 lb. - 560 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	55.16 56.38	55.26 56.39	54.97 56.39	55.66 56.97	56.52 57.62	57.82 58.92	58.27 59.77	58.27 59.77	58.27 59.77
Double Roll 560 lb. - 580 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	57.16 58.38	57.26 58.39	56.97 58.39	57.66 58.97	58.52 59.62	59.82 60.92	60.27 61.77	60.27 61.77	60.27 61.77
Double Roll 580 lb. - 600 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	59.16 60.38	59.26 60.39	58.97 60.39	59.66 60.97	60.52 61.62	61.82 62.92	62.27 63.77	62.27 63.77	62.27 63.77
Double Roll 600 lb. - 620 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	61.16 62.38	61.26 62.39	60.97 62.39	61.66 62.97	62.52 63.62	63.82 64.92	64.27 65.77	64.27 65.77	64.27 65.77
Double Roll 620 lb. - 640 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	63.16 64.38	63.26 64.39	62.97 64.39	63.66 64.97	64.52 65.62	65.82 66.92	66.27 67.77	66.27 67.77	66.27 67.77
Double Roll 640 lb. - 660 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	65.16 66.38	65.26 66.39	64.97 66.39	65.66 66.97	66.52 67.62	67.82 68.92	68.27 69.77	68.27 69.77	68.27 69.77
Double Roll 660 lb. - 680 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	67.16 68.38	67.26 68.39	66.97 68.39	67.66 68.97	68.52 69.62	69.82 70.92	70.27 71.77	70.27 71.77	70.27 71.77
Double Roll 680 lb. - 700 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	69.16 70.38	69.26 70.39	68.97 70.39	69.66 70.97	70.52 71.62	71.82 72.92	72.27 73.77	72.27 73.77	72.27 73.77
Double Roll 700 lb. - 720 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	71.16 72.38	71.26 72.39	70.97 72.39	71.66 72.97	72.52 73.62	73.82 74.92	74.27 75.77	74.27 75.77	74.27 75.77
Double Roll 720 lb. - 740 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	73.16 74.38	73.26 74.39	72.97 74.39	73.66 74.97	74.52 75.62	75.82 76.92	76.27 77.77	76.27 77.77	76.27 77.77
Double Roll 740 lb. - 760 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	75.16 76.38	75.26 76.39	74.97 76.39	75.66 76.97	76.52 77.62	77.82 78.92	78.27 79.77	78.27 79.77	78.27 79.77
Double Roll 760 lb. - 780 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	77.16 78.38	77.26 78.39	76.97 78.39	77.66 78.97	78.52 79.62	79.82 80.92	80.27 81.77	80.27 81.77	80.27 81.77
Double Roll 780 lb. - 800 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	79.16 80.38	79.26 80.39	78.97 80.39	79.66 80.97	80.52 81.62	81.82 82.92	82.27 83.77	82.27 83.77	82.27 83.77
Double Roll 800 lb. - 820 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	81.16 82.38	81.26 82.39	80.97 82.39	81.66 82.97	82.52 83.62	83.82 84.92	84.27 85.77	84.27 85.77	84.27 85.77
Double Roll 820 lb. - 840 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	83.16 84.38	83.26 84.39	82.97 84.39	83.66 84.97	84.52 85.62	85.82 86.92	86.27 87.77	86.27 87.77	86.27 87.77
Double Roll 840 lb. - 860 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	85.16 86.38	85.26 86.39	84.97 86.39	85.66 86.97	86.52 87.62	87.82 88.92	88.27 89.77	88.27 89.77	88.27 89.77
Double Roll 860 lb. - 880 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	87.16 88.38	87.26 88.39	86.97 88.39	87.66 88.97	88.52 89.62	89.82 90.92	90.27 91.77	90.27 91.77	90.27 91.77
Double Roll 880 lb. - 900 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	89.16 90.38	89.26 90.39	88.97 90.39	89.66 90.97	90.52 91.62	91.82 92.92	92.27 93.77	92.27 93.77	92.27 93.77
Double Roll 900 lb. - 920 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	91.16 92.38	91.26 92.39	90.97 92.39	91.66 92.97	92.52 93.62	93.82 94.92	94.27 95.77	94.27 95.77	94.27 95.77
Double Roll 920 lb. - 940 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	93.16 94.38	93.26 94.39	92.97 94.39	93.66 94.97	94.52 95.62	95.82 96.92	96.27 97.77	96.27 97.77	96.27 97.77
Double Roll 940 lb. - 960 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	95.16 96.38	95.26 96.39	94.97 96.39	95.66 96.97	96.52 97.62	97.82 98.92	98.27 99.77	98.27 99.77	98.27 99.77
Double Roll 960 lb. - 980 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	97.16 98.38	97.26 98.39	96.97 98.39	97.66 98.97	98.52 99.62	99.82 100.92	100.27 101.77	100.27 101.77	100.27 101.77
Double Roll 980 lb. - 1000 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	99.16 100.38	99.26 100.39	98.97 100.39	99.66 100.97	100.52 101.62	101.82 102.92	102.27 103.77	102.27 103.77	102.27 103.77
Double Roll 1000 lb. - 1020 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	101.16 102.38	101.26 102.39	100.97 102.39	101.66 102.97	102.52 103.62	103.82 104.92	104.27 105.77	104.27 105.77	104.27 105.77
Double Roll 1020 lb. - 1040 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	103.16 104.38	103.26 104.39	102.97 104.39	103.66 104.97	104.52 105.62	105.82 106.92	106.27 107.77	106.27 107.77	106.27 107.77
Double Roll 1040 lb. - 1060 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	105.16 106.38	105.26 106.39	104.97 106.39	105.66 106.97	106.52 107.62	107.82 108.92	108.27 109.77	108.27 109.77	108.27 109.77
Double Roll 1060 lb. - 1080 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	107.16 108.38	107.26 108.39	106.97 108.39	107.66 108.97	108.52 109.62	109.82 110.92	110.27 111.77	110.27 111.77	110.27 111.77
Double Roll 1080 lb. - 1100 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	109.16 110.38	109.26 110.39	108.97 110.39	109.66 110.97	110.52 111.62	111.82 112.92	112.27 113.77	112.27 113.77	112.27 113.77
Double Roll 1100 lb. - 1120 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	111.16 112.38	111.26 112.39	110.97 112.39	111.66 112.97	112.52 113.62	113.82 114.92	114.27 115.77	114.27 115.77	114.27 115.77
Double Roll 1120 lb. - 1140 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	113.16 114.38	113.26 114.39	112.97 114.39	113.66 114.97	114.52 115.62	115.82 116.92	116.27 117.77	116.27 117.77	116.27 117.77
Double Roll 1140 lb. - 1160 lb.	42 " - 109-42 lb. 87 " - 109-42 lb.	115.16 116.38	115.26 116.39	114.97 116.39	115.66 116.97	116.52 117.62				

Printing (per 5 M sq.ft. - 500 Printing Units)

Containers																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																					</
------------	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	----

Closure (per 10 inches of container depth)

50, 40 and 60 lb. single wall	4.00	4.00	4.00	4.50	5.00	5.50	5.50
90 and 120 lb. single wall	6.00	6.00	6.00	6.50	7.50	7.50	7.50
Double Wall	6.00	6.00	6.50	6.50	6.50	7.50	7.50
Paper Type - 2"	1.50	1.50	1.50	1.60	1.60	2.00	2.00
Paper Type - 3"	1.50	1.50	1.50	1.60	1.60	2.00	2.00
Paper Type - 3 1/2"	1.70	1.70	2.00	2.00	2.00	-	-
Paper Type - 4"	1.60	1.60	1.60	2.40	2.40	-	-
Tear Strip Type	-	-	-	-	-	10.00	-

## Added Cost Factors (per 10 M sq.ft.)

[illegible]

## Machine Charges (1) (per order)

[illegible]

Freight

Newfoundland - See Note (m) below.  
Saskatchewan - See Note (n) below.  
Alberta - See Note (o) below.

## Area Tables

# IDENTICAL

(a) Revised material factors adopted in October 1948.

- (a) Revised material factors adopted in October 1946.
- (b) " " " " in December 1950.
- (c) " " " " in January 1951.
- (d) " " " "
- (e) Information not available.
- (f) 65 lb. D.G.
- (g) Under test or non-test.
- (h) Subsequently cancelled and factors in respect of 40 lb. containers used.
- (i) Subsequently cancelled and factors in respect of 40 lb. containers used.
- (j) 500 items = 10,000 sq. ft.
- (k) In the Ontario-Quebec-Maritime zones the small quantity charges applied on orders involving less than 30,000 q.c.ft. and in the western zones on orders involving less than 10,000 q.c.ft.
- (l) Selected number only shown; remaining charges identical from zone to zone.
- (m) Scheme of freight factors prepared by Container Statistician and revised from time to time was used with the 1948 and 1950 issues of the manual. Freight factors were added to unit prices.
- (n) Scheme of freight factors prepared by Container Statistician and revised from time to time was used with the 1948, 1950 and 1953-54 issues of the manual. Freight factors were added to unit prices.
- (o) Scheme of freight factors prepared by Container Statistician was used with the 1948 issue of the manual.
- (p) Machine charges incorporated in unit prices following the price change of May 1954.

(1) Container Statistics' Pricing Manuals - 5452-3581, CST; 5582-5710, CST; 7804-86, MPP; 5992-6230, CST;

- [illegible]

(Statement of Evidence, Vol. V, Appendix II, Schedule II, pp. 1-3).



APPENDIX IV

Schedule of Mark-up Percentages by Costing Zones, 1948-1954

<u>Costing Zone</u>	<u>Period</u>	<u>Mark-up</u>	<u>Sur-charge</u>
<u>1948 Issue of the Manual</u>			
Newfoundland	October 1948 - September 1950	8	-
Maritimes	October 1948 - September 1950	12½	-
Ontario-Quebec	October 1948 - September 1950	5	-
Manitoba-Saskatchewan	July 1948 - July 1950	10	-
Alberta	July 1948 - October 1948	10	-
	October 1948 - December 1950	15	-
British Columbia	July 1948 - December 1950	15	-
<u>1950 Issue of the Manual</u>			
Newfoundland	September 1950 - December 1950	8	-
Maritimes	September 1950 - December 1950	12½	-
Ontario-Quebec	September 1950 - December 1950	5	-
Manitoba-Saskatchewan	July 1950 - March 1951	10	-
Alberta	December 1950 - March 1951	15	-
British Columbia	December 1950 - March 1951	15	-
Newfoundland	January 1951 - June 1951	8	5
Maritimes	January 1951 - June 1951	12½	5
Ontario-Quebec	January 1951 - June 1951	5	5
Manitoba-Saskatchewan	April 1951 - June 1951	10	5
Alberta	April 1951 - June 1951	15	5
British Columbia	April 1951 - June 1951	15	5
Newfoundland	July 1951 to October-November 1953	8	13
Maritimes	July 1951 to October-November 1953	12½	13
Ontario-Quebec	July 1951 to October-November 1953	5	15
Manitoba-Saskatchewan	July 1951 to October-November 1953	10	15
Alberta	July 1951 - March 1952	15	15
British Columbia	July 1951 - January 1952	15	15
Alberta	March 1952 - May 1954	15	11
British Columbia	January 1952 - May 1954	26 (a)	-

(a)

Mark-up and surcharge combined in one percentage figure.

APPENDIX IV

Schedule of Mark-up Percentages by Costing Zones, 1948-1954 -(continued)

<u>Costing Zone</u>	<u>Period</u>	<u>Mark-up</u>	<u>Sur- charge</u>
<u>1953-1954 Issue of the Manual</u>			
Newfoundland	After the Oct-Nov. 1953 Price Change	17 $\frac{1}{2}$	-
Maritimes	After the Oct-Nov. 1953 Price Change	10	-
Ontario-Quebec	After the Oct-Nov. 1953 Price Change	5	-
Manitoba-Saskatchewan	After the Oct-Nov. 1953 Price Change	13	-
Alberta	After the May 1954 Price Change	12	-
British Columbia	After the May 1954 Price Change	10 $\frac{1}{2}$	-

(Statement of Evidence, Vol.I, p.185)

University  
Publications









Government  
Publications

Government  
Publication

CONFIDENTIAL

PLEASE DO NOT REMOVE  
OR SLIP FROM THIS



